THE BANKERS OF TODAY,

THE BANKS OF TOMORROW:

THE FINANCIAL SERVICES INDUSTRY AND

ITS ROLE IN COMMUNITY REINVESTMENT

BY

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INTRODUCTION

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For the past 50 years, the banking business has been simple and predictable for both consumers and financial institutions. The banking laws established after the Great Depression ensured that money could be saved, transferred and borrowed through a system of highly regulated and insured banks and savings and loan associations. For the most part, banks and savings and loan associations were community institutions that provided a safe place to store cash and build a nest egg; they were the financial institutions that provided local residents, farmers and businesses with credit.

Individual checking accounts were offered free by many commercial banks. On payday, customers would go to the bank and deposit their paychecks, get a small amount of cash, and pay the rent and other bills with a check. Individuals who wanted to save money went to the local savings and loan association or to the credit union at work and opened a passbook account. The first stop for homebuyers seeking a mortgage was the savings and loan association where the downpayment had been saved.

Small town banks were an integral part of rural communities. At planting time, farmers would come to town to borrow the cash needed to get the crops started, and at harvest time they would return to repay their loans. Small business owners saw the local banker as a partner in building and expanding the town and their businesses. Local residents made regular trips to the bank to make savings account deposits, make loan payments and withdraw cash for their needs.

Today, banking is no longer simple or predictable. During the last decade, there have been significant changes in the technology of banking and in banking law and its interpretation. These changes have had a major impact on the way that banking is done and on who provides banking services.

In 1980, Congress passed the Depository Institutions Deregulation and Monetary Control Act, and in 1982 the Garn-St. Germain Depository Institutions Act, which together removed interest rate and many product restrictions on banks and savings and loan associations. This change enabled regulated financial institutions to compete for deposits with the unregulated money market funds.[1] During the time that deregulation legislation was being phased in, bankers began to push against other traditional limits of banking. Restrictions against interstate banking were effectively bypassed and then in many states eliminated. Legal loopholes were found to create "nonbank banks" which circumvent some of the restrictions against bank holding companies while allowing the advantage of deposit insurance.[2] Other loopholes have been employed to allow banks themselves to begin to enter restricted lines of business such as insurance and securities trading. Advances in technology made a national marketplace a reality and provided cost cutting opportunities through innovations such as automated teller machines.

Today, the typical banker is as likely to be a computer as a person and is as likely to be employed by Sears as the local community bank. Banking is no longer a community activity. Deposits are gathered in the national marketplace and local loans are sold to a national pool of investors through the secondary markets. And perhaps most importantly, banks and savings and loan associations have been joined in lending and deposit collecting by a diverse array of other corporations.

Many of the changes in the way banking is done have been helpful to consumers and communities. Automated teller machines have increased convenience and access for depositors. The expansion of the secondary market has enhanced lender competition for residential mortgages, making mortgage money more available than ever before. Interstate banking has brought the resources of large institutions into some underserved areas and has raised awareness of the importance of financial institutions to states and regions. The banking revolution itself has become a vehicle for the reexamination of the role of financial service providers.

But what has been missing from the debate and discussion is recognition of the fact that the banking revolution is a two-edged sword that has the potential to limit access to financial services for those whose needs are considered too small, too unique or too time-consuming to be highly profitable. Although the impact of changes in the industry on low and moderate income people and communities has not been fully explored, two trends are clear: 1) credit and deposit services are becoming standardized products sold in a national marketplace with little concern for particular local needs, and 2) low and moderate income communities, historically underserved by banks and savings and loan associations, are not being well served by the new financial service providers.

In order to understand how these trends and other changes have affected low and moderate income urban and rural communities, Woodstock Institute initiated a project in 1986 entitled **Meeting Community Credit Needs in an Era of Deregulation.** This project is designed to investigate the changes in the financial services industry and develop a clear and easily usable base of information about the current providers of financial services and their impact on low and moderate income consumers and communities.

This publication is the first in a series on the new financial services industry. It presents 1) definitions of the major types of financial services providers that offer either loan or deposit services to consumers; and 2) profiles of selected megafinancial corporations. It is intended to be a reference tool that demystifies the institutions active in the financial services industry, the Bankers of Today. Towards that goal, non-technical definitions and illustrations are used. In addition, six corporate profiles are presented to illustrate the breadth and scope of the large, multifaceted corporations that appear to be the Banks of Tomorrow.

BANKING IN THE 80'S

BANKING IN THE 80'S

Traditionally, banks and savings and loan associations have been the intermediaries between those with money to save and those with a need to borrow money. As the recognized guardians of the country's money, these financial institutions are subject to strict rules and regulations designed to ensure their safety and soundness. This regulation and oversight define an industry that has historically been uniform in its business practices, conservative in its competition and slow to change.

For the first time in decades, the regulation of banking has changed in the last ten years. With deregulation has come the rapid expansion of nonfinancial institutions in the world of banking. The result has been a drastic change in the way the banking industry is defined and operates. The three core functions of banking remain; 1) to accept and safely hold deposits, 2) to extend credit, and 3) to process demand deposits (checking accounts). However, the new and renewed providers of those functions have changed the nature of the way the business of banking is done in substantial ways.

Because most savers need to borrow money at various times and lenders need deposits to make loans, there was in the past a direct, geographic relationship between deposit collecting and lending. Deposit collectors usually made their loans in the communities where they collected deposits, and lenders usually collected deposits in the communities where they made loans. Now the relationship between lending and deposit collecting is becoming more remote. Deposits are collected and loans are made by a wide range of institutions, not all of whom are intermediaries between borrowers and savers. Many lenders no longer use deposits as the source of funds to make loans, relying instead on investors for the money needed to fund the loans they make. Deposits are collected by institutions that are not lenders in order to provide a financial base for investments.

The trend towards a breakdown in the geographic nature of banking has been further hastened by the development of new technologies and investment techniques that allow capital to flow freely and safely from place to place throughout the world. Loans are funded by capital raised internationally. Prime depositors are carefully identified through sophisticated marketing techniques. Deposits are solicited by mail and serviced through vast and growing automated teller networks. An increasing number of loans are made by lenders that are not banks, and once made, are sold to investors who have no relationship to the borrower or to the lender.

Deposit Collectors of Today

There are essentially two types of deposit collectors: those that are covered by deposit insurance and those that are not. Deposit insurance is provided by the federal and some state governments. It is designed to guarantee that depositors will get their money back even if the institution fails. It is available for deposits held by banks, savings and loan associations and credit unions. Money collected by securities firms and insurance companies is not eligible for deposit insurance.

Insured deposits have two basic forms: time deposits and demand deposits. Time deposits include passbook savings accounts, credit union share accounts, various types of club savings accounts and certificates of deposit. These accounts earn interest and are deposited with the understanding that the money cannot be withdrawn without prior notice to the financial institution. Time deposits, and in particular passbook savings accounts, were developed to provide a stable deposit base for savings and loan associations and savings banks. The fact that they are predictable and long term makes them a good source of funds for long-term mortgage lending.

Demand deposits include checking accounts and credit union share draft accounts. Money from these accounts can be withdrawn at any time. In addition to providing insured safekeeping for cash, checking accounts provide a standardized and safe way for individuals and businesses to exchange money. Short-term demand accounts are used by commercial banks to fund commercial loans which are generally much shorter term than mortgages. In the past, banking regulation restricted these accounts to commercial banks and prohibited the payment of interest. Individual checking accounts were customarily offered free to depositors. With deregulation, savings and loan associations and credit unions are now able to offer checking accounts, interest may be paid on the account balance and fees are commonly charged for checking account services.

The basic vehicle used by deposit collectors who offer demand accounts without deposit insurance is the money market mutual fund. These accounts were the forerunner of interest bearing checking accounts. Money market deposits from individuals are pooled in a mutual fund and the resulting profits are paid as interest to individual accounts. Withdrawals by check are allowed.

The other common form of uninsured savings is life insurance policies. Although not structured to allow withdrawals, life insurance policies provide savers a vehicle for periodic payments, a predictable return and collateral for personal loans. Life insurance is so popular with consumers that the insurance industry controls $1 trillion in financial assets, an amount second only to commercial banks.[3]

As the nature of deposit collecting and deposit collectors has changed with deregulation, the market share held by various institutions has shifted. A look at 1986 consumer savings by type of institution illustrates this point. The Federal Reserve Board reports that as of December 31, 1986, consumer savings totaled almost $2.5 trillion. As shown in Table 1 below, the largest share of those savings were deposited in commercial banks, a major change from ten years ago when savings and loan associations held the majority of consumer savings. Credit unions now represent over 6% of the market, a 21.7% increase over their 1985 level. In addition, money market mutual funds which had no discernible market share in 1976, now represent over 8% of the market.

TABLE 1
1986 MARKET SHARE OF CONSUMER SAVINGS BY FINANCIAL INSTITUTION[4]

Type of Institution	Consumer Savings Deposits (in billions)	Market Share
Commercial Banks	$1,130.5	45.3%
*Savings Institutions	$ 914.6	36.6%
Credit Unions	$ 152.7	6.1%
Money Market Mutual Funds	$ 207.2	8.3%
U.S. Savings Bonds	$ 92.3	3.7%
TOTAL	$2,497.3	100.0%

* Includes savings and loan associations and mutual savings banks

Lenders of Today

The lenders within the new financial services industry include banks, securities firms, insurance companies, finance companies, credit unions, savings and loan associations, and retailers. The loan products they offer range from traditional mortgages on single family homes to complicated commercial loans to multinational corporations. However, there are three basic categories of credit: consumer loans, residential loans and commercial loans.

Consumer loans include credit card loans, personal loans and auto loans. Residential loans include home mortgages, home improvement loans and multifamily building loans. Commercial loans are loans to businesses that can include lines of credit, commercial real estate mortgages, loans for purchase of equipment and inventory and loans to acquire other businesses.

In the past, lenders had fairly well-defined markets for their loan products. Commercial banks made loans to businesses. Savings and loan associations made mortgages for home buyers. Personal loans and auto loans were the mainstay of credit unions. Retailers offered installment loans to finance the purchase of their products and finance companies specialized in the personal loans considered too risky by other lenders. There was some overlap among institutions. Commercial banks, for example, made a significant number of single-family home mortgages. However, for the most part, different types of lenders did not aggressively compete for the same types of loans.

The lenders of today market to a broader range of borrowers, and traditional definitions of the type of loan products offered by specific types of financial institutions have blurred. Regulations restricting savings and loan associations from making commercial loans have been eased and many thrifts are now marketing to businesses. Bank credit cards, Visa and Master Card, have become one of the largest sources of consumer credit. Credit unions are now allowed to make long-term residential mortgages. Finance companies have become an increasingly important source of credit for small businesses. Mortgage bankers now make a significant portion of conventional single family mortgages.

The money to fund loans no longer comes primarily from a deposit base. The secondary market, which provides a marketplace for lenders to sell their residential mortgages to investors, has grown in size and importance. Most residential mortgage lenders now routinely use secondary market requirements as the backbone of their underwriting standards to ensure that they have the option of selling the loans. New techniques have been developed to package auto loans and credit card loans as securities for sale to investors. And frequently, large commercial loan borrowers offer investors the opportunity to finance their need for credit directly by selling commercial paper[5] through a securities firm instead of borrowing from an institutional lender.

The Banks of Tomorrow

The following sections examine the various kinds of "banks" that make up the financial services industry. Included are brief descriptions of the three types of depository lenders: commercial banks, thrift institutions and credit unions. In addition there are brief descriptions of four other types of lenders: mortgage bankers, finance companies, insurance companies and securities firms. The last financial service provider described is the currency exchange, which is neither a deposit collector nor a lender, but a financial intermediary of growing significance to low income people.

The lenders and deposit collectors that are included are discrete types of companies and are described in that way. However, one of the most significant changes in the financial services industry has been the emergence of umbrella corporations that lend and collect deposits through a myriad of subsidiaries that include banks, thrifts, mortgage bankers, finance companies and insurance companies.

These "megafinancials" do not define themselves as bankers but as companies that, in addition to other products, sell financial services. They collect deposits and make loans but measure success in terms of profit from product sales. To illustrate the concept of megafinancial corporations, six industry leaders are profiled in Part Two.

PART ONE: BANKERS OF TODAY

Commercial Banks

A bank is a financial institution that accepts demand deposits and makes commercial loans.

Main Banking Functions:	Deposit collection, lending and checking accounts
Source of Funds:	Deposits
Use of Funds:	Commercial loans, consumer loans and residential loans
Source of Income from Banking Activities:	Interest from loans and fees for services

Commercial banks are among the most diversified financial institutions in the United States. They accept deposits from individuals, businesses and governments while making loans to all three sectors. Although prohibited by law from selling insurance and securities,[6] the commercial banks of the 1980's provide virtually every other financial service. In addition, commercial banks are attempting both to find loopholes in the banking law and to change the law so that they can underwrite and sell insurance and securities.

Commercial banks were originally established as guardians of the money supply. Although banks are no longer allowed to print money, the Federal Reserve Board still controls the country's money supply through the amount and cost of the money it lends to its member banks. Commercial banks were initially relatively loosely regulated but have always received their authority to do business from either a state or federal charter. After the widespread bank failures of the Great Depression, the Federal government initiated a system of deposit insurance and regulation to guarantee the safety and soundness of the system. These regulations narrowly defined what a commercial bank could do, separated banking from commerce and made banking one of the most regulated industries in the country.

Until the recent deregulation, commercial banks were the only financial institutions that were allowed to both offer checking accounts and make commercial loans. Federal regulation prohibited payment of interest on checking accounts, which made these deposits an extremely low cost source of money for banks to use in making loans. To attract deposits, most banks did not have minimum balance requirements nor did they charge service fees. Now that restrictions on the payment of interest have been removed, banks compete for high balance accounts with competitive interest rates; they discourage unprofitable low balance accounts through minimum balance requirements; and they ensure that each account pays for itself or generates a profit by charging service fees. The initiation of interest bearing checking accounts has also resulted in the broader use of other sources of money to fund commercial bank loans.

One of the main lending activities of commercial banks is commercial lending. Commercial loans are generally short-term loans to businesses. They include real estate loans, equipment and fixed asset loans, receivables financing and leasing. Commercial banks can and do make loans to individuals, partnerships, corporations and governments.

Although commercial banks have always been able to make residential mortgages, mortgage lending has never been as large a part of their lending business as it has with savings and loan associations.[7] Some commercial banks make a substantial number of consumer loans, including personal unsecured loans and auto loans. In addition, many commercial banks now offer at least one of the bank credit cards.

Regulation

There are four different regulators of commercial banks: the Federal Reserve Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC) and the state banking authorities. All commercial banks are regulated by two of the four and some are regulated by three. Bank charters are granted by both federal and state governments. Federally chartered banks are regulated by the Comptroller of the Currency. State chartered banks are regulated by state banking supervisors. Deposit insurance is provided by the Federal Deposit Insurance Corporation (FDIC) which regulates all banks that it insures. In addition, bank holding companies and some state-chartered industrial banks are members of and regulated by the Federal Reserve Board.

Commercial banks are regulated as lenders and deposit collectors. The main focus of banking regulation is on ensuring the safety and soundness of the institution. However, a clear and direct responsibility to serve the credit needs of local communities has been established through federal legislation. In addition, some of the state legislation that grants new banking privileges, such as interstate banking, pairs that privilege with the responsibility of ensuring equal access to credit and deposit services for low and moderate income people and neighborhoods.

All commercial banks are subject to the Community Reinvestment Act, which requires that they serve the credit needs of their local communities and pay particular attention to the credit needs of the low and moderate income residents of those communities. In addition, all banks with more than $10 million in assets located in standard metropolitan statistical areas are required by the Home Mortgage Disclosure Act (HMDA) to disclose the number and dollar amount of their housing loans by census tract.

One example of a state that has authorized new privileges paired with explicit reinvestment responsibilities is New York. In 1984, New York granted its state-chartered banks the right to invest in real estate equity but made this new power contingent upon each bank's performance in meeting the credit needs of its community.[8] In addition, the state requires individual banks that utilize their newly approved powers to also invest in specific loan programs or projects that meet the credit needs or assist in the development or redevelopment of low and moderate income neighborhoods.

Another example of state legislation is the Minnesota Reciprocal Interstate Banking Act. This Act requires out-of-state banks that acquire Minnesota banks to demonstrate that 1) the acquisition will add new funds to the State and 2) the acquired institution will maintain a prescribed level of development lending within the State.[9]

Thrift Institutions

A thrift institution is a savings and loan association, federal savings bank, or state-chartered savings or industrial bank that accepts deposits and makes loans.

Main Banking Functions:	Deposit collection, lending and checking accounts
Source of Funds:	Deposits
Use of Funds:	Residential mortgages, consumer loans and commercial loans
Source of Income from Banking Activities:	Interest from loans and fees for services

For most of their history, thrift institutions, which include savings and loan associations, federal savings banks, and state chartered savings and industrial banks, were the only neighborhood-based financial institutions that offered passbook savings accounts. The money collected from those deposits was used by thrifts to make residential mortgages in their neighborhoods. This straightforward connection between deposit gathering and residential lending was the intention of Congress when it passed legislation granting thrift institutions the right to pay slightly higher interest rates on savings accounts and restricting their ability to make commercial loans. This legislation gave thrift institutions privileged access to a long-term, stable deposit base and created an indirect subsidy to help ensure financing for the housing market.

There are two basic types of ownership structure for thrifts. **Mutual savings and loan associations** and **savings banks** are similar in some ways to credit unions. They are owned by the depositors who theoretically share in policymaking through their right to vote at annual meetings. **Stock held savings and loan associations** are similar to other stock corporations. They are owned by stockholders who buy stock in a Stock Thrift Holding Company (STHC) and share in the profits of the thrift through dividends.

There are two kinds of stock thrift holding companies:

1) Multiple STHC's which own more than one thrift institution

2) Unitary STHC's which own one thrift institution. The regulations governing the two types of STHC's differ significantly in terms of the business activities in which they are allowed to engage.

Multiple STHC's are limited in the range of business activities in which they may engage. These activities are roughly parallel to the activities of bank holding companies which must be "so closely related to banking as to be a proper incident thereto." Multiple STHC's may not operate institutions in more than one state.

Any company that owns one federal savings bank or one savings and loan association is a unitary STHC. A unitary STHC can engage in a virtually unlimited range of business activities through its subsidiaries.

In recent years, the thrift industry has undergone some fundamental changes which have made these institutions look and act more like commercial banks. They can now offer checking accounts as well as passbook savings accounts and certificates of deposit at competitive interest rates. In addition, they are now allowed to make some commercial loans as well as the single-family mortgages which have constituted the core of their business.

Thrift institutions still originate more single-family home mortgages than any other type of lender. In 1986, thrift institutions originated 48% of the country's single-family mortgages, a total of $212 billion in loans.[10]

As has been well documented in the press, the deregulation of interest rates and loosening of restrictions on deposit gathering caused serious damage to the thrift industry. Many savings and loan associations have failed, others have required assistance from federal regulators and still others have adapted to the new competition. Very few thrift institutions remain successful as local neighborhood or ethnic intermediaries between savers and local home buyers.

Regulation

Thrift institution regulation parallels bank regulation. Thrifts can be chartered and regulated by either the federal or state government. All savings and loan associations and most savings banks are insured by the Federal Savings and Loan Insurance Corporation (FSLIC). Some states offer their own state sponsored deposit insurance for state chartered thrifts. A small number of savings banks are insured by the Federal Deposit Insurance Corporation.

Savings and loan associations and federal savings banks are regulated by the Federal Home Loan Bank Board. Some state chartered savings banks are also members of and regulated by the Federal Reserve Board. State chartered savings banks are regulated by the appropriate state agencies.

Thrift institutions are regulated as deposit collectors and lenders. The prime focus of thrift regulations is to ensure the safety and soundness of the institution. In addition, federal legislation and some state legislation has clearly defined the responsibility of thrift institutions to serve the credit needs of their local communities.

All thrift institutions are subject to the Community Reinvestment Act, which requires that they serve the credit needs of their local communities. In addition, all thrifts with more than $10 million in assets located in standard metropolitan statistical areas are required by the Home Mortgage Disclosure Act (HMDA) to disclose the number and dollar amounts of their housing loans by census tract.

Michigan is an example of a state with a special regulation that applies to thrift institutions. The Michigan Mortgage and Home Improvement Lending Practices Act[11] sets guidelines for processing applications and computing interest, requires lending and foreclosure disclosure, implements a complaint process for persons denied credit who suspect discrimination, and grants regulators authority to establish Mortgage Review Boards consisting of community residents, elected officials and independent appraisers, for the purpose of housing complaints. This law is administered by the Financial Institutions Bureau of the Michigan Department of Commerce.

Credit Unions

A credit union is a member-owned, democratically controlled cooperative financial institution.

Main Banking Functions:	Deposit collection, lending and share draft accounts
Source of Funds:	Deposits
Use of Funds:	Consumer loans, home improvement loans and single-family home mortgages
Source of Income from Banking Activities:	Interest on loans and fees for services

Credit unions are nonprofit, cooperative financial institutions incorporated under state or federal law that accept savings deposits and make loans. They are owned by the member savers and borrowers, each of whom is allowed one vote regardless of the amount on deposit. Credit unions are not allowed to make commercial loans, but in every other respect their deposit and lending operations parallel those of banks and savings and loan associations.

Credit unions are chartered to service their members. Federally chartered community development credit unions and some state chartered credit unions can accept nonmember deposits but all credit unions are prohibited from lending to nonmembers.

Membership in a credit union must be defined in terms of a common bond which specifically identifies the group that it serves. The common bond can be a shared place of employment (employee credit unions); membership in an organization (associational credit unions); or residence and/or work within a geographic area (community credit unions). The largest number of credit unions in the United States, over 77%, are employee credit unions. Associational credit unions make up 16% of the market and community credit unions make up approximately 6%.[12]

Since credit unions were introduced in the United States in the early 1900's, they have become an increasingly visible force in America's financial world. In November, 1987, there were 16,348 credit unions with over 55 million members.[13] The National Credit Union Administration reports that U.S. credit unions had $182.7 billion in assets as of the end of June, 1986.[14] But despite the size of this financial base, credit unions view themselves as a cooperative movement, not a financial industry.

The credit union movement is rooted in the belief that the cooperative pooling of resources can help individuals without wealth to help themselves. It is based on principles of self-help, democracy and community responsibility. Because credit unions are democratically controlled, the types of loan products offered, the interest rates and fees charged, and the type of deposit accounts sold reflect the needs of the membership. Most credit unions still offer financial counseling to members. Profits are returned to the members not only in dividends but in lower fees and loan interest rates.

One recent response to the changes in the banking industry has been a renewed interest in credit unions as a community development tool and as the most viable way for low income populations to have access to financial services. Because they are democratically controlled, members of a credit union can choose lower interest on their savings in order to eliminate the need for service fees; they can determine the types of loan products offered and the marketing strategy pursued; and, through their volunteer efforts, they can keep overhead to a minimum.

Regulation

Credit unions are the third type of financial intermediary that are regulated as deposit collectors and lenders. They are chartered and regulated by either the state or federal government. Credit union deposits, like bank deposits, are required by law to be insured. Federally chartered credit unions are insured by the National Credit Union Administration (NCUA). State chartered credit unions may also be insured by the NCUA or they may be insured by private insurance companies recognized by the state chartering agency. The NCUA conducts regular safety and soundness examinations of the credit unions that it insures.

Credit unions are subject to many of the same consumer regulations as banks and savings and loan associations, such as the federal Truth in Lending Act. Because credit unions are membership organizations that can only make loans to their members, they are not subject to the federal Community Reinvestment Act. However, credit unions with over $10 million in assets located in standard metropolitan statistical areas are subject to the federal Home Mortgage Disclosure Act and must annually disclose the number and dollar amount of their residential loans by census tract.

Mortgage Bankers

Mortgage bankers are lenders which originate, sell and service residential and commercial mortgages, but do not collect deposits.

Main Banking Function:	Mortgage lending
Sources of Funds:	Sale of mortgages, company capital, loans from other financial institutions and sale of securities
Use of Funds:	Residential and commercial mortgages
Source of Income from Banking Activities:	Fees

When most people buy a house, they assume they will finance its purchase with a mortgage from a bank or savings and loan association. However, an increasing number of homeowners actually get their mortgage from a mortgage banker. Unlike banks and savings and loan associations, mortgage bankers do not accept deposits or keep individual mortgages as an investment. They function primarily as an intermediary between the borrower and the investor. Most do not even have visible offices in neighborhoods or the city center. In fact, the larger mortgage banking companies are best known for their other lines of business, such as automobile manufacturing.

Mortgage banking developed in the late 1800's in conjunction with the industrial growth of major cities on the east coast. During that time, the capital generated in eastern cities from savings deposits, life insurance reserves and business profits exceeded local loan demand. At the same time, capital was needed in the western part of the United States to fund loans to home buyers, businesses and farms. Because there were no national banks or savings and loan associations, mortgage bankers became the financial intermediaries who could match the capital generated in eastern cities with loans in the west.

Today, mortgage bankers still operate as intermediaries between investors with capital and borrowers. They make mortgages using their corporate capital or money borrowed from commercial banks. Shortly after making a mortgage, a mortgage banker sells the loan to a government agency like the Federal National Mortgage Association (FNMA) or a private investor such as a pension fund. In 1986, mortgage bankers originated 83% of the FHA/VA mortgages and 18% of all conventional single family mortgages made in the country.[15] In some markets, their share of both types of loans is even greater.

Mortgage bankers are usually subsidiaries of large corporations like insurance companies. However, it is becoming increasingly common for savings and loan associations to create mortgage banking subsidiaries that make residential mortgages for sale to the parent thrift as well as to other investors.[16]

To find borrowers for their loan products, mortgage bankers rely on a network of relationships with realtors and independent mortgage brokers. Mortgage brokers, many of whom are realtors, bring the borrower and lender together and receive a commission for each mortgage that is made by the lender. Most mortgage bankers use these independent salespeople instead of their own salesforce to identify potential borrowers.

Many mortgage bankers continue to service the mortgages that they make after they have sold the loan to an investor. Loan servicing is a significant source of revenue. It involves the collection of principal, interest and escrow payments from borrowers, payment of property taxes and insurance premiums, and distribution of the loan proceeds to the investor for a fee paid by the investor. Because mortgage servicing brings the mortgage banker into direct contact with the borrower, individual borrowers often are unaware that the mortgage banker has sold the loan.

Regulation

Mortgage bankers which operate on an interstate basis are subject to the Federal Trade Commission Act. Mortgage bankers which originate or service FHA or VA mortgages are also regulated by the U.S. Department of Housing and Urban Development (HUD) and the Veterans Administration (VA). In addition, mortgage bankers are regulated individually by some states.

Because they do not accept deposits, mortgage bankers are not regulated as deposit collectors. In addition, they are not regulated as lenders. For the most part, the few states that license mortgage bankers focus on protecting investors and borrowers from fraud. Often, the regulation of mortgage bankers is enforced by the department that licenses real estate brokers.

Illinois and Michigan are two states which regulate mortgage bankers as lenders. In Illinois, mortgage bankers are licensed and regulated by the Commissioner of Savings and Loan Associations which sets minimum standards for mortgage banker business practices.[17] In addition, Illinois licensing legislation requires mortgage bankers to disclose the number and dollar amount of their loan originations and foreclosures by census tract. This disclosure law is patterned after HMDA and allows communities to track mortgage banker lending for evidence of redlining or other unethical lending practices.

In Michigan, mortgage bankers are regulated along with banks and thrifts under the Mortgage and Home Improvement Lending Practices Act.[18]

Finance Companies

A finance company is a lender that makes loans to individuals and/or businesses but does not accept deposits.

Main Banking Function:	Lending
Sources of Funds:	Corporate capital, loans from other financial institutions and sale of loans and securities
Use of Funds:	Consumer loans, loans to businesses and mortgages
Source of Income from Banking Activities:	Fees and interest on loans

Finance companies are state licensed and regulated corporations that make consumer loans, commercial loans or both. They do not accept deposits, cash checks or sell money orders. Finance companies borrow from banks or their parent companies to raise the capital needed to do their lending. Well established finance companies also raise capital by selling corporate securities.

Finance companies are an increasingly important source of both consumer and commercial loans. Nearly one-fourth of the consumer credit in the United States is supplied by finance companies,[19] and they account for almost 14% of all commercial and industrial loans.[20] In 1986, they held $344 billion in loans.[21]

The finance company industry traces its origin to two parallel but separate types of companies. The most visible are the independent finance companies, like Household Finance, that operate in virtually every city and town in the country. They provide secured and unsecured loans to consumers and small businesses. Many also provide retail sales financing for local stores and financing to farmers for the purchase of farm equipment.

Independent finance companies are often considered lenders of last resort. They are noted for accepting borrowers and loans that are considered high risk by bankers: consumers with unfavorable credit ratings, individuals with a large amount of personal debt, and businesses that are both newer and smaller than those acceptable to commercial banks. The high interest rates charged by these finance companies reflect the market perception of the risk involved in this type of lending.

Less visible but larger in loan volume are the finance company subsidiaries of retail and manufacturing companies. These subsidiaries provide installment financing to customers of the parent company for the products they sell. One of the oldest of these is the Sears Acceptance Corporation formed by Sears, Roebuck and Company in 1911. Probably the most well known is General Motors Acceptance Corporation (GMAC), which finances purchases of General Motors cars and now originates single family mortgages.

Finance company subsidiaries of retail and manufacturing companies offer interest rates competitive with automobile and consumer loan rates at banks and with Visa and Mastercard. However, because they are subsidiaries of a larger corporation, they offer financing not only as a product but also as support for the sales of other products manufactured by the corporation. A recent extreme example of this dual purpose is the below-market-rate new car loans offered in the mid-1980's by the finance company subsidiaries of the major auto manufacturers.

Historically, individuals needing consumer or installment credit have been the prime market for both independent and corporate subsidiary finance companies. However, businesses have become an important market for finance companies, both those businesses considered too small for commercial banks and larger companies. According to a 1985 study by the Federal Reserve Bank of Cleveland, finance companies accounted for 13.7% of all commercial and industrial loans in the United States.[22] Finance companies are now a major source of lease financing, inventory financing and accounts receivable financing.

Regulation

Finance companies which operate on an interstate basis are regulated by the Federal Trade Commission, and as lenders they are subject to federal Truth-in-Lending legislation. Finance companies are also regulated by state governments, and licensing and regulation requirements vary between states. Historically, state regulation of finance companies has focused on ceilings on interest rate charges.

Many states have repealed usury laws which set a ceiling on interest rates. However, some states still regulate the interest rates charged by finance companies. For example, in Minnesota, finance companies are regulated by the Division of Financial Examinations of the Commerce Department. State law establishes a maximum effective annual rate of interest of 21.75% for most loans.[23]

Insurance Companies

An insurance company is a corporation that contracts with individuals or businesses to pay losses from unexpected events or catastrophes in return for receipt of established premium payments.

Main Banking Function:	Lending
Sources of Funds:	Policy premiums and reserves, and investment income
Use of Funds:	Loans to policyholders, commercial loans and residential mortgages
Source of Income from Banking Activities:	Fees and interest from loans

Insurance companies are intermediaries that facilitate sharing the risk of financial loss among a large group so that the risk of a loss for each group member is less. Because premium payments are collected from a large, diverse group of individuals, only a small number of which will experience losses, the total premiums collected exceed the amount needed to pay for losses from one individual. When the average consumer thinks of an insurance company, he/she thinks of auto, health or life insurance. However, insurance companies are the second largest source of capital in the country. The approximately $1.4 trillion in financial assets held by insurance companies as of December 31, 1987, was second only to the $2.3 trillion held by commercial banks.[24]

Insurance companies do not collect deposits. However, like banks and savings and loan associations, insurance companies are entrusted with the money of individuals and businesses, and must guarantee a return to their customers. In addition, life insurance is commonly viewed as a savings vehicle, and many life policies are structured to pay interest on premiums to create an increasing cash value for the policy.

The most common type of loan made by insurance companies is a loan to a policyholder against the equity established in the policy. Essentially, a policy loan allows the insured to borrow the money paid as premiums without cancelling the policy.

Because the policyholder pledges the cash value of the insurance policy as collateral, the risk of nonpayment for this type of loan is very low. Therefore, the interest rate charged by insurance companies for policyholder loans is usually much lower than the rate charged by banks for consumer loans.

Because insurance companies need long-term investments with a predictable rate of return, mortgages are very attractive investments. Although not usually considered mortgage lenders, the insurance industry has a significant investment in mortgages. In 1986, insurance companies held more than $190 billion in mortgages.[25] Many of those dollars are invested in loans originated by other lenders and sold to insurance companies as an investment, but increasingly, insurance companies are originating loans through finance companies, mortgage banking subsidiaries and commercial real estate subsidiaries. To generate additional mortgage investments, most insurance companies operate subsidiaries that invest directly in commercial real estate and/or originate residential mortgages.

Regulation

The insurance industry is the only major financial service sector not directly regulated by the federal government. Insurance companies are regulated and licensed at the state level. All states have established departments of insurance with the responsibility for regulating insurance companies. The National Association of Insurance Commissioners is a membership organization of state authorities which seeks to voluntarily standardize insurance industry regulation as much as possible.

Insurance companies are not regulated as lenders or deposit collectors but as insurance companies. State regulations are generally concerned with financial soundness and fiduciary responsibility, business and advertising practices, and the insurance products themselves. They do not regulate the lending activities of insurance companies. The federal government, through the Federal Trade Commission, has the authority to regulate insurance companies as interstate corporations within the broad areas of coercion, intimidation, fraud and unfair competition. However, under the McCarran-Ferguson Act of 1945, the federal government is unable to exempt or supercede state insurance laws. In addition, variable annuities offered by insurance companies have been classified as securities and are therefore regulated by the Securities and Exchange Commission.

Securities Firms

A securities firm is a company that underwrites investment securities and/or serves as an intermediary or broker in the sale of securities.

Main Banking Functions:	Deposit collection and corporate finance
Sources of Funds:	Individual, corporate and institutional investors
Use of Funds:	Buying and selling stocks, bonds and commercial paper
Source of Income from Banking Activities:	Fees on transaction services

As the banking system developed in the United States, two separate and distinct functions evolved: commercial banking and investment banking. Both functions provide businesses with capital that is facilitated by financial intermediaries. However, commercial banks make loans to commercial customers while securities firms and investment bankers facilitate the sale of stock or ownership shares in corporations.

Securities firms are the intermediaries or brokers between corporations that want to sell corporate stock and individual, corporate and institutional investors. The buying and selling of stock is done at organized marketplaces called stock exchanges as well as through the over-the-counter market which essentially involves investment bankers actually underwriting and purchasing new corporate security issues. Securities firms act as merchandising middlemen using their credibility and reputation to give value to securities not previously traded as they buy or find a buyer for corporate securities.

The legal distinction between commercial banking and investment banking was mandated by federal legislation after the Great Depression. The collapse of the nation's financial system was blamed in part on the role that bank credit played in funding speculation in stocks and the close relationship between commercial banking and securities trading. In response, Congress enacted a series of laws including the Glass Steagall Act[26] that created a legal separation between investment and commercial banking. At the same time, separate regulatory oversight agencies were established for both.

As the financial services industry has evolved, the distinctions between commercial banking and investment banking have again blurred. Securities firms collect deposits for cash management accounts which are not insured like bank deposits but do function as combined savings and checking accounts. They meet corporate financing needs by brokering the purchase of commercial paper[27], competing head on with commercial banks in the commercial loan market. In addition, some securities firms have acquired "nonbank banks," which have a bank charter and are eligible for federal deposit insurance. Through their ownership of nonbank banks, securities firms are able to offer insured deposit accounts or make commercial loans in the national marketplace.

Regulation

Securities firms are not regulated as deposit collectors or lenders. They are regulated as financial intermediaries and brokers between investors and investment opportunities. The main focus of the regulation is prevention of fraud and artificial manipulation of market prices and guarantee of full disclosure of risk to the investor.

The Securities and Exchange Commission (SEC) registers and regulates securities firms. The Securities Investor Protection Corporation (SIPC) provides insurance for investors against losses incurred by the bankruptcy of a securities firm. In addition, the various organized marketplaces, the stock and trading exchanges, monitor trading activity to ensure orderly markets.

Check Cashers

A check casher is a retail business that sells money changing services such as money orders and check cashing.

Main Banking Functions:	Check cashing and sale of money orders
Source of Income:	Fees on transaction services
Primary Market:	City neighborhoods
Primary Customers:	Low-income individuals

Check cashers, sometimes called currency exchanges, are storefront businesses that provide a range of money transaction and payment functions for a fee. They sell money orders, cash checks and money orders, make change, sometimes provide notary public services, and handle vehicle licensing and title transfers. They do not make loans or collect deposits.

Check cashers are most commonly located in inner-city neighborhoods underserved by banks and savings and loan associations. The widespread use of checks as payment for goods and labor has made it virtually impossible for individuals to exist without the ability to cash or issue a check. Check cashers cater to the need for access to check cashing and money order purchases by those who do not have access to or cannot afford a bank account.

Most check cashers are small businesses, owned by one individual or a partnership. Some owners do own several check cashing establishments. However, these businesses are not usually marketed as units of a single company like bank branches. Only a few states have a significant number of check cashers. These include California, Illinois, Florida, Michigan, Minnesota, New Jersey, New York, Texas and Wisconsin.

It appears that check cashers are very profitable. When several banks closed branches in Detroit, the State of Michigan considered allowing finance companies to provide cash services in underserved neighborhoods. However, before enabling legislation could be passed, several banks opened "money stores" in the neighborhoods that were most affected by branch closings. These bank-owned "money stores" do not collect deposits or make loans, but sell money orders and cash checks just like a currency exchange.

Very few low income people have sufficient savings to meet the minimum balance requirements for a bank account. Therefore, most use check cashers as their "bank." The result is that low income people who use a check casher pay a much higher percentage of their income for the use of a financial intermediary than higher income individuals with access to a bank or savings and loan association.

The following example illustrates the cost of using a currency exchange as a financial intermediary. In 1987, a typical monthly public aid check for a woman with two children in Illinois was $342.00. Rent for a federally subsidized apartment at 30% of income level would be $102.60, and the landlord would require payment by check or money order. In addition, this woman would need money orders for the phone bill, the light bill, the gas bill, and perhaps an installment bill payment of $45.00.[28] The chart below shows the cost of using a currency exchange for these services in Illinois, the most stringently regulated state.

Service	Maximum Fee
Cashing of public aid check for $342.00	$ 5.00
Money order for $102.60 rent	$ 1.77
Money order for $15.00 phone bill	$ .90
Money order for $15.00 light bill	$ .90
Money order for $5.00 gas bill	$ .80
Money order for $65.00 installment payment	$ 1.20
TOTAL	**$10.57**

The currency exchange fees would total 3% of her monthly income. The equivalent of this monthly fee for a person making $20,000 per year would be $50.00 per month and for a person making $35,000 per year it would be $87.50 per month. The fees paid to a currency exchange do not buy safekeeping of the balance as a deposit and the transactions do not create a record of the type of banking relationship that is required in any application for credit. People with a banking relationship pay much less for financial services and receive much more for their money.

Regulation

Licensing and regulation of check cashers varies from state to state. In most states, licensing requirements are minimal. Many states not only do not regulate check cashers as a distinct line of business, but also allow pawnshops and liquor stores to provide check cashing services. Although the perceived risk of doing business in low income neighborhoods and the lack of competition from banks and savings and loan associations fosters a very high fee structure, currency exchange fees are regulated in only three states: Illinois, New Jersey and New York. Illinois has the most stringent licensing and fee regulation.

In Illinois, currency exchanges are licensed and regulated by the Department of Financial Institutions. Fees for most services are set by regulation and all fees are required to be clearly posted. Currently, Illinois currency exchanges are allowed to charge 90 cents + 1.2% of the face amount of the check for check cashing and 75 cents + 1% of the face amount of a money order, the two most commonly used currency exchange services. New Jersey and New York, the only other states that regulate fees, only restrict check cashing fees. Fees for other services are set by the market. In New Jersey, charges of 1% for in-state checks and 1.5% for out-of-state checks are allowed. In New York, a fee of 10 cents plus .75% of the face amount of the check is allowed and there is a check ceiling of $2,500 for all but government checks and bank drafts.[29]

Conclusion

The role of financial service providers in our economy is often invisible. Yet these intermediaries make possible the orderly exchange of money, the safekeeping of savings and the extension of credit. It would be impossible to have viable neighborhood, city, state or national economies without access to financial service providers.

During the last decade, the banking business has been undergoing enormous change. One of the most visible changes has been interest rate deregulation and the subsequent introduction of minimum balance requirements and service fees. Because depository institutions now compete for deposits with each other and with nondepository institutions, the cost of checking and savings accounts has gone up and presents an expensive barrier to their use.[30] Moderate income people pay a high percent of their income for deposit services and many low income people can't afford deposit accounts at all, relying instead on expensive or unsafe alternatives.

The increasing importance of the secondary market has forced lenders to market loan products that are acceptable to investors without sufficient consideration of the special needs of local communities. The smaller or more unique loans needed most by low and moderate income communities in urban and rural areas often do not fit the standard criteria used by the secondary market. Yet these mortgages are critical to the future and vitality of the community.

The competition spawned by new financial service providers expanding their business to include deposit collecting and lending has reduced profit margins and made larger loans to more sophisticated borrowers most attractive to lenders. The smaller or more labor intensive loans are not as profitable. But the smaller loans and the unsophisticated borrowers are often what fuels a healthy neighborhood economy.

The trend towards a disappearance of the local neighborhood financial institution, and its replacement by regional and national corporations, drains capital and wealth from local communities. Financial service providers from outside the community have the ability to collect deposits or interest on loans without recycling these dollars into the local economy. The megafinancials that are growing in market share and influence often have no financial incentive to maintain community branches, hire local residents or design products tailored to the uniqueness of the local market.

Most of the new financial service providers do not recognize a responsibility to serve the credit and deposit needs of low and moderate income people and communities. Many of them are regulated as lenders or as deposit collectors. And most are not subject to either the Community Reinvestment Act or the Home Mortgage Disclosure Act.

As the financial services industry continues to evolve, it becomes clear that there is a need to define and develop community reinvestment responsibilities that apply to the vast array of types of financial service providers. As repositories and collectors of vast amounts of capital, the banks of tomorrow have the potential to release enormous amounts of energy and resources to stimulate economic development on the national, state and community levels. Policymakers, economic development practitioners and community based organizations must work to ensure that low and moderate income people and communities have equal access to those resources.

PART TWO: BANKS OF TOMORROW

Introduction

The Bankers of Today, described in the previous section, are financial corporations whose deposit taking and loan making functions are well established and clear cut. They are regulated, where appropriate, as discrete entities and all parts of their business have a common theme. For those that are chartered to do business as a bank, thrift or credit union and are able to offer deposit insurance to their customers, there is a clearly established responsibility to serve the credit needs of their members (credit unions) or their local communities.

The evolution in the banking business, however, is producing financial services providers that are not like the Bankers of Today. These are potentially the Banks of Tomorrow. They are large, multifaceted, international corporations. Some of these, like Citicorp, are banking corporations that have grown ever bigger and expanded their financial product lines and services to enter new national and international markets. Others, like Sears and General Motors, are corporations with roots in manufacturing or retail that now offer a range of financial services to existing and new customers.

The Banks of Tomorrow are all highly diversified. They own subsidiaries which conduct a variety of types of businesses and are located throughout the country. While many of these corporations do a significant amount of lending, the survival of these corporations (with the exception of Citicorp) does not depend on their continuing to sell financial services. The financial services they sell are one aspect of a diverse product line. Each product is priced to maximize contributions to corporate profits and is designed to appeal to customers in every region of the country. And, at times, financial products are geared to complement or enhance the sale of nonfinancial products such as automobiles.

While the Banks of Tomorrow control ever increasing amounts of capital, there is no assurance that they will use these resources to support the economies of local communities, states, regions or even the United States. Increasingly, these corporations operate in a global market and as a result they have little or no understanding of or loyalty to local communities where they do business. In addition, because much of their lending is done through subsidiaries like finance companies and mortgage banking companies that are not subject to the Community Reinvestment Act, they do not recognize a responsibility to reinvest in low and moderate income communities.

Six corporations were selected to illustrate the breadth and scope of the Banks of Tomorrow. Despite different organizational histories, these corporations are all multi-focused national financial services providers and each has made a significant contribution to the evolving definition of "financial services provider." The six profiles illustrate the diversity of the emerging Banks of Tomorrow. Included are corporations that began as a bank, a retailer, two manufacturing companies, a finance company, and a securities firm.

The first profile presented is that of Citicorp, the largest bank holding company in the United States and one of the most aggressive advocates for expanding bank powers. Citicorp makes loans and collects deposits in every state and has been extremely persistent and creative in finding ways to push current restrictions on banking activities to the outermost limits.

The second corporate profile is Sears, the issuer of the largest number of credit cards in the country. In addition to its traditional full range of retail products, Sears now makes residential mortgages, sells insurance, sells real estate, owns a securities firm, issues a credit card that competes with Visa and Mastercard and owns a bank and a savings and loan association.

The third corporation profiled is General Motors, one of the largest residential mortgage lenders in the United States. No longer just an automobile manufacturing company, General Motors owns subsidiaries that make consumer loans, automobile loans, mortgages and commercial leases, and that sell all lines of insurance.

The fourth corporation profiled, Household International, is well known for its history as a consumer finance company. More recently, Household International has been active in developing consumer banks in a number of states. Household International has distinguished its entrance into the financial services market by targeting middle-income consumers and creating banks that are designed to appeal to consumers in the same ways that retail department stores do.

General Electric, the first "high tech" manufacturing company, is the fifth corporation profiled. General Electric was established to develop the lightbulb but is now a strong participant in the financial services market and the owner of one of Wall Street's oldest investment banking firms.

The final profile is of Merrill Lynch, the securities firm that pioneered the Cash Management Account, a combination checking, credit card and investment account. Merrill Lynch now services over 1 million customers with the Cash Management Account and has a network of over 15,000 automated teller machines to service those customers.

Information on each corporation was taken from corporate annual reports, other corporate publications, and various business and industry directories.[31] Each profile begins with a list of the lines of business the corporation is now actively engaged in and a 1986 financial summary. This is followed with a brief corporate history and a description of the corporate structure, a more detailed description of financial services and any appropriate reinvestment regulation which governs corporate activities. Finally, a list of corporate subsidiaries is included to show the variety within each organization's lines of business and its geographic scope.

CITICORP PROFILE

Lines of Business

Bank holding company, stock thrift holding company, national banks (member, Federal Reserve System), federal savings and loan associations (member FHLBB), short-term business credit agencies, equipment leasing and rental, mortgage banking, services allied with sale of securities, securities brokerage, computer programming and software services, financial management, and credit and mercantile reporting.

1986 Financial Summary

Assets	$196.1 billion
Liabilities	$177.6 billion
Revenues	$ 23.5 billion
Employees	88,500
Offices/Branches	3,121
Geographic Span	U.S.: 40 states plus District of Columbia International: 91 countries worldwide

Corporate History

Citicorp, the bank holding company, originated with the 1967 incorporation of First National City Corporation in Delaware. First National City Corporation was formed as a unitary bank holding company for the acquisition of First National City Bank, at the time the third largest U.S. bank. It became a multibank holding company in 1971 and changed its name to Citicorp in 1974.

In 1982, Citicorp became the first bank holding company to acquire a thrift with its acquisition of Fidelity Savings and Loan Association in San Francisco. In 1984, it added First Federal Savings and Loan in Chicago and New Biscayne Federal Savings and Loan in Miami to its holdings. All were renamed Citicorp Savings and their combined assets make Citicorp the largest thrift holding company in the United States.

Over the last two decades, Citicorp has consistently pushed against the boundaries of banking. It has been in the forefront of new technology while aggressively lobbying for interstate banking and removal of the restrictions prohibiting banks from selling insurance and securities. Citicorp now collects deposits and makes loans in every state. It sells insurance through its bank in South Dakota and designs and sells computer software.

Company Structure and Activities

Citicorp controls the activities of its subsidiaries through three divisions: the individual banking group which deals with consumer credit and financial services; the investment banking group which deals with money market, foreign exchange and securities-related services; and the institutional banking group which deals with credit and financial services for businesses, government and financial institutions.

Consumer Services

Checking, Savings and Investment Accounts

Through its bank and thrift subsidiaries and their branches, Citicorp has an expansive network for collecting deposits. Citibank, NY ranks first in the U.S. in deposits with $94.4 billion, while Citicorp's three savings and loans in Chicago, San Francisco and Miami, respectively, rank 11th, 26th and 59th nationally for a combined deposit base of over $8 billion. Citicorp offers the full range of transaction and savings accounts including NOWs, Super NOWs, money market deposit accounts and IRA programs.

In addition, Citicorp offers a line of mutual funds called the Landmark Family of Mutual Funds. Citicorp offers a relatively unique account called Citi-One, which is patterned after Merrill Lynch's cash management account and combines checking, savings, money market and credit card accounts into one. Citicorp broadens its deposit taking reach by using its nonbank subsidiaries to market its banking products. Applications for bank products are available at nonbank subsidiary offices, and accounts may be opened or transactions made by mail.

Automated Teller Machines

Citicorp's deposit taking and marketing efforts are supported by a vast network of automated teller machines (ATMs). Citicorp's bank customers, bankcard and Citi-One account holders have access to more than 1,000 of Citicorp's own ATMs in addition to 19,000 ATMs belonging to networks which Citicorp shares. Citicorp has been a major innovator in electronic banking technology. It has developed a trilingual (English, Spanish, and Chinese) ATM machine which it is currently installing throughout the New York metropolitan area. Citicorp plans to have over 900 of these ATMs installed in the New York area in 1987. In 1986, over 100 million transactions were made on Citicorp's 622 New York area ATMs.

Credit Cards and Travelers Checks

Citicorp is the number one issuer of bankcards in the U.S. It issues Visa, Master Charge and its own Diners Club cards. In addition, Citicorp offers its own line of travelers checks.

Mortgage Lending

Citicorp is the number one originator of mortgage loans (13 billion in 1985). As of December 1985, Citicorp held a mortgage servicing portfolio of $36 billion. Until 1986, Citicorp was the largest mortgage servicer in the country. Citicorp conducts its mortgage activity through its bank, thrift, and mortgage banking subsidiaries. Citicorp sees the mortgage lending and servicing business as one of its biggest money-makers and most promising lines of consumer finance.

Student Loans

As of December 1985, Citicorp was the leading private lender for student loans with an outstanding portfolio of $1.7 billion.

Credit and Financial Services for Business

Commercial and Industrial Loans

Domestic Citicorp offices held a $16.9 billion commercial and industrial portfolio in December, 1986. Its overseas offices held a portfolio worth $22.9 billion in commercial and industrial loans. In addition to the more traditional long-term and working capital loans made by its bank subsidiaries, Citicorp has developed very active asset-based finance and leasing operations through its numerous commercial finance company subsidiary offices.

Other Related Business Services

Citicorp is among the leaders in corporate pension fund management. It has recently developed a unit specializing in corporate mergers and acquisitions. Citicorp provides liquidity insurance, guarantees its own loans as well as those of other parties, and provides asset-intermediation services.

Foreign Exchange Services

Citicorp is the world's largest foreign exchange dealer. It helps its business clients obtain foreign currency and hedge their currency and interest rate exposure through a variety of risk management services including swaps, options and futures.

Equity Products

Citicorp owns a discount brokerage subsidiary, Newbridge Securities, which trades on the New York Stock Exchange, and an institutional research and brokerage firm, Lynch, Sares and Ryan. As a U.S. bank holding company, Citicorp's securities activities are limited by the Glass-Steagall Act. However, Citicorp does operate full stock brokerage firms in a number of foreign lands including Japan, Australia, U.K., Hong Kong and Singapore.

Debt Products/Money Market Services

Citicorp offers commercial paper, short-term notes, interbank money instruments and other similar short-term financing products to its commercial customers. Despite Glass-Steagall, Citicorp offers long-term financing products by underwriting securities through its foreign subsidiaries.

Advisory, Transaction Processing and Other Services

Citicorp finances trade-related transactions, provides cash management, information and documentation collection services.

Other Financial Activities

Citicorp is among the three leading dealers in U.S. government securities. It underwrites, trades and distributes securities for U.S. municipalities and foreign governments.

Citicorp has an active global presence with offices in 91 foreign countries. Its international financial service activities range from commercial banking to insurance and stock brokerage. In 1986, Citicorp's loan portfolio included over $30 billion in loans made to foreign businesses, governments and financial institutions.

Citicorp is a major actor in developing and marketing computer programming software services for financial institutions. These services are used for information and transaction processing.

Regulation

As a bank holding company (BHC), Citicorp is regulated by the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Federal Reserve Board. As a thrift holding company (THC), Citicorp is regulated by the Federal Home Loan Bank Board (FHLBB). It is generally not legally permissible for a BHC to own a thrift institution or vice versa. Citicorp is one of a handful of institutions to be both a BHC and a THC. As a bank holding company, Citicorp was able to acquire thrift institutions as a result of the Garn-St. Germain banking legislation which allows banks to acquire insolvent thrifts as a last resort in order to save them from closing.

Citicorp's subsidiaries and their activities are monitored by federal bank regulators to insure that they do not violate Glass-Steagall provisions which limit the range of commercial activities engaged in by bank holding companies. In addition, its securities activities are regulated by the Securities and Exchange Commission (SEC). Its financial company subsidiaries are regulated by the Federal Trade Commission (FTC) and the various state governments in which they operate. Citicorp's foreign banking, insurance and stock brokerage activities are regulated by the appropriate foreign government. By law, these activities must be done by subsidiaries and cannot be linked in any way to U.S. bank subsidiaries.

Bank and thrift subsidiaries of Citicorp are covered by banking regulations concerning safety and soundness, fairness in lending, the Community Reinvestment Act (CRA) and Home Mortgage Disclosure Act (HMDA). Its mortgage banking and finance company subsidiaries are not subject to any form of disclosure or reinvestment responsibilities.

Subsidiaries

Name	Location of Headquarters	Activities
General Banking Group:		
Citibank	N.A., New York, NY	Ntl. Bank, Member Federal Reserve
Citibank	NY State, Buffalo, NY	Ntl. Bank, Member Federal Reserve
Citicorp Leasing Inc.	New York, NY	Asset-based finance
Citicorp Venture Capital Ltd.	New York, NY	Investment and trust management
Citicorp Diners Club Inc.	Chicago, IL	Credit card services

Name	Location of Headquarters	Activities
Transaction Tech. Inc.	Santa Monica, CA	Computer programming and software services for financial institutions
Citicorp (USA) Inc.	Boston, Cleveland, Denver, Minneapolis, Miami, St. Louis, Philadelphia, Houston, San Francisco, Los Angeles, Seattle, Atlanta, Stamford (CT), Dallas, San Diego, Beverly Hills, Iselin (NJ), New York	Finance company and miscellaneous business services
Asset-Based Finance Group:		
Citicorp Accept. Co. Inc.	St. Louis, MO	Asset-based finance
Citicorp Bus. Credit Inc.	New York, NY	Asset-based finance
Citicorp Bus. Credit	Los Angeles, CA	Asset-based finance
Citicorp Homeowners Inc.	St. Louis, MO	Mortgage banking and loan correspondence
Citicorp Industrial Credit Inc.	Harrison, NY	Asset-based finance
Citicorp Person-to-Person Inc.	St. Louis, MO	Licensed small loan lending
Citicorp Real Estate Inc.	New York, NY	Mortgage banking
Investment & Trust Group:		
Citicorp Investment Mgmt. Inc.	Houston, TX	Securities exchange services
Citicorp Investment Mgmt. Inc.	San Francisco, CA	Securities exchange services

Name	Location of Headquarters	Activities
Citicorp Capital Investors	New York, NY	Securities exchange services
Travelers Check Group:		
Citicorp Savings Inc.	New York, NY	Travelers checks

Savings and Loan Group:

Citicorp Federal Savings and Loan Associations

Location of Headquarters	Branches
Chicago, IL	59
Oakland, IL	92
Miami, FL	34
Washington, D.C.	14

SEARS PROFILE

Lines of Business

General retail merchandising, real estate, insurance, securities brokerage, financial planning and management, consumer and commercial finance, mortgage banking, savings and loan association (FSLIC insured), and consumer banking.

1986 Financial Summary

Assets	$66 billion
Liabilities	$53 billion
Revenue	$44.2 billion
Financial Services Revenue	$19.2 billion
Employees	458,000

Corporate History

Sears, Roebuck and Company was founded in 1886 as a catalog retailer that marketed its wares to farm families isolated from city shopping opportunities. At various points, Sears has sold everything from party dresses and underwear to appliances and house plans both through catalog sales and through its current network of almost 900 retail stores.

As early as 1911, Sears began offering consumer installment credit for its products. It now has more than 40 million Sears credit card holders and in 1986 introduced the Discover Card, designed to compete with the major bank credit cards, Visa and Mastercard.

Sears began to sell insurance in 1931 through its Allstate Insurance subsidiary. Allstate's first products were property and casualty insurance, but between 1957 and 1960, the product range was expanded to include life, health, accident and credit life insurance. Sears primarily markets its insurance products through its Allstate insurance agents and retail stores.

Between 1969 and 1981, Sears added a wide range of financial services to its product line through acquisition of various financial service providers. It now offers mortgage banking, investment management, mutual fund sales, cash management services, lease brokerage and deposit accounts. It owns a savings and loan association, a state bank and a trust company. It has established full service financial service centers at many Sears stores that market the company's full range of financial services. From 1972 to 1983, the portion of Sears' earnings from financial services grew from 22% to 58%.

Company Structure and Activities

Sears has four basic business components: the Merchandise Group, Allstate Insurance, Dean Witter Financial Services, and Coldwell Banker. There are financial services components in each of the four operations. The merchandising group maintains responsibility for installment sales financing. Allstate handles all insurance activities. Dean Witter operates the Sears Financial Network Centers which offer mortgage banking, consumer lending, mutual funds, and discount stock brokerage. In addition, Sears Savings Bank of California is considered part of Dean Witter Financial Services. Coldwell Banker Real Estate Group is responsible for commercial real estate finance, development and management and residential mortgage banking and brokerage.

Financial Service Activities

Consumer Services

Sears finances consumer purchases of its own products as well as the purchase of other products and services through its Discover Card. By year-end 1986, there were approximately 12 million Discover Cards in the hands of consumers, and over one-half million merchants accepted the card. Discover Card holders have access to over 13,000 ATMs across the country. Sears also makes direct consumer loans for items such as automobiles through Dean Witter and Sears Savings Bank. In addition, Sears offers home equity consumer loans, mutual fund investments, IRA's, discount brokerage services, financial management services and a variety of depository and checking account services through its consumer nonbank banks and through Sears Savings Bank. Sears Savings Bank has recently sold some of its 91 branches because it considered branches too expensive a way of collecting deposits. Instead, Sears collects deposits through its financial service centers based in its retail stores.

Residential Real Estate

Coldwell Banker claims to have participated as a realtor in 9% of all real estate sales in the U.S. in 1986. Coldwell Banker has a distribution network which includes 1,758 offices and 30,000 salespeople nationwide. Coldwell Banker also originated $847 million worth of mortgages in 1986, which were packaged as securities and serviced by Dean Witter. Dean Witter maintained a servicing portfolio worth over $4 billion in 1986.

Commercial Real Estate

Coldwell Banker leases and manages commercial real estate. Coldwell Banker held $770 million in assets under its real estate management division in 1986. In 1986, Homart Development Company, a subsidiary of Coldwell Banker, began construction of two shopping malls totaling 2.3 million square feet and opened six new office buildings totaling 1.3 million square feet.

Other Commercial Finance

Dean Witter engages in investment banking including an active unit for financing corporate mergers, acquisitions and restructuring.

Regulation

Sears Savings Bank is regulated by the Federal Home Loan Bank Board and California State banking authorities. Sears nonbank banks in Delaware and South Dakota are regulated by state banking authorities and the FDIC. Because these nonbank banks do not make commercial loans, Sears is not considered a bank holding company and is therefore not subject to restrictions on its other commercial activities. The insurance activities of Allstate are regulated by state agencies in the states in which they operate. Dean Witter's securities activities are regulated by the Securities and Exchange Commission.

Subsidiaries

Name	Location of Headquarters	Activities
Allstate Insurance	Northbrook, IL	Life, health, casualty property insurance
Coldwell Banker and Co.	Los Angeles, CA	Real estate development and brokerage
Dean Witter Financial Services Inc.	New York, NY	Securities brokerage
Discover Card Services Inc.	Lincolnshire, IL	Credit card services
Sears Merchandise Group	Chicago, IL	General retailing
Sears World Trade	Washington, DC	Global trade and brokerage

Name	Location of Headquarters	Activities
Sears Roebuck Acceptance Corp.	Wilmington, DE	Revolving charge accounts for merchandising, short-term notes
Sears Savings Bank	Glendale, CA	Savings and loan association
Greenwood Trust Company	Greenwood, DE	Credit card services and consumer banking
Hurley State Bank	Hurley, SD	Consumer banking

GENERAL MOTORS PROFILE

Lines of Business

Design, engineering and manufacturing of automobiles, trucks, tractors, locomotives and heavy equipment, power systems, aircrafts, aerospace and military systems; electronics, consumer financing, insurance, mortgage banking, and equipment leasing.

1986 Financial Summary

Assets	$ 72.6 billion
Liabilities	$ 41.9 billion
Revenues	$102.8 billion
Financial services revenues	$ 4.3 billion
Employees	876,000

Corporate History

General Motors (GM) began operations in 1908 as an automobile manufacturer. In 1919, GM began to finance the purchase of its automobiles and to engage in accounts receivable and inventory finance of other businesses. In the 1920's, GM began selling property and casualty insurance, and in the 1940's started making direct commercial loans. In the late 70's and early 80's, GM expanded its activities to include credit life insurance, equipment leasing, and mortgage banking. It is now one of the largest residential mortgage lenders in the U.S.

Company Structure and Activities

General Motors conducts its various activities through numerous subsidiaries. GM's financial service activities are conducted by three primary subsidiaries. General Motors Acceptance Corporation (GMAC) finances consumer and distributor purchases of automobiles and other GM products, and provides other commercial leasing and finance services. General Motors Mortgage Corporation originates and services mortgage loans. Motors Insurance Corporation sells auto, health, credit and life insurance products.

Financial Service Activities

Consumer Finance

GM's primary consumer finance activity is its financing of automobile loans. GMAC leads the nation in automobile loans.

Mortgage Finance

GM originates and services mortgage loans through its GM Mortgage Corporation subsidiary. GM is the nation's leading mortgage servicer with a portfolio totaling more than $21 billion.

Commercial Loans

GMAC is one of the nation's leading commercial lenders among both banks and nonbank institutions. According to a 1985 Federal Reserve Bank of Chicago study, GM was the nation's second leading provider of lease financing and was fifth in overall commercial lending with loans valued over $10 billion.

Insurance

GM provides a full range of insurance products through its Motors Insurance Corporation subsidiary.

Regulation

General Motors as a publicly traded company is regulated by the Securities and Exchange Commission. Its consumer, commercial and mortgage finance and insurance activities are all regulated by state authorities in the states in which they operate.

Subsidiaries

Name	Location of Headquarters	Activities
Buick, Oldsmobile, Cadillac Group	Warren, MI	Auto manufacturing
Chevrolet - Pontiac Group	Warren, MI	Auto manufacturing
GMC Truck and Bus Operations	Pontiac, MI	Truck and bus manufacturing
GM AC-Spark Plug Div.	Flint, MI	Auto parts
GM Delco Products Div.	Dayton, OH	Auto parts

Name	Location of Headquarters	Activities
GM Corporation Packard Elec. Division	Warren, OH	Recreational vehicles, farm equipment, wiring systems
Fisher-Guide Division	Warren, OH	Metal fabricating
Allison Gus Turbine	Indianapolis, IN	Turbine engines and aircraft components
Military Vehicles Oper.	Detroit, MI	Military vehicles
GM Warehousing and Distribution Div.	Flint, MI	Wholesale warehousing
General Motors Acceptance Corporation	Detroit, MI	Wholesale and rental finance of GM products, leasing finance
GMAC Mortgage Corp.	Philadelphia, PA	Mortgage banking
Motors Insurance Corp.	Detroit, MI	Auto, health, credit and life insurance
Motors Holding Division	Detroit, MI	Capital financing
Electronic Data Systems Corporation	Dallas, TX	Data processing and telecommunictions systems
GM Hughes Electronics Corp.	Detroit, MI	Electronics
Hughes Aircraft Comp.	Los Angeles, CA	Aircraft
Ground Systems Group	Fullerton, CA	Military systems
Missile Systems Group	Canoga Pk, CA	Guided missile systems
Radar Systems Group	Los Angeles, CA	Radar systems
Space and Communications Group	Los Angeles, CA	Space technology
GMF ANUC Robotics	Troy, MI	Robotics
TE Knowledge Inc.	Palo Alto, CA	Knowledge engineering

HOUSEHOLD INTERNATIONAL PROFILE

Lines of Business

Manufacturing of buildings, consumer and commercial industrial products, life and credit insurance, consumer and commercial finance, mortgage banking, real estate, equipment leasing, commercial bank (member Federal Reserve System), and savings and loan association (state licensed, FSLIC insured).

1986 Financial Summary

Assets	$13.2 billion
Liabilities	$11.9 billion
Total Revenues	$ 2.7 billion
Financial Services Revenue	$ 2.0 billion
Employees	77,000
Offices/branches/production plants	1505
Geographic Span:	Banks in six states, offices throughout the United States, Canada, Australia, and the United Kingdom. Production facilities in the United States, Canada, The United Kingdom, Italy, Brazil, Mexico, West Germany, and China

Corporate History

Household International traces its roots to a pawnbroker in Minneapolis in the 1870's that did business out of a one-room store. In 1880, Frank Mackey, the founder, changed his business to a consumer loan finance company. One of the first of its kind, Household Finance offered consumer loans without physically holding the collateral. Household Finance Company quickly branched out throughout the midwest and subsequently became a national finance company with additional operations in Canada, the United Kingdom and Australia.

Since the 1960's, Household International has diversified its products to include retail sales, manufacturing and vehicle leasing and rental. In 1965, Household International acquired a general merchandising company that sold groceries, variety merchandise and home furnishings. In 1968, it established a manufacturing organization through the acquisition of manufacturing companies. And in 1969, Household International acquired National Car Rental, one of the largest car rental companies in the world.

In 1987, Household International unveiled its concept for a consumer bank for the middle market consumer. The Household Bank is a federally chartered bank based in Newport, California with over 60 offfices in six states. Through the Household Bank, Household International collects deposits and makes all types of loans in the national marketplace.

Company Structure and Activities

Household International has two basic components: financial services and manufacturing. The manufacturing component controls a number of subsidiaries in a diverse line of products. The financial services component includes a savings and loan association, a commercial bank, an insurance company, and a finance corporation which engages in a range of consumer and commercial finance activities.

Financial Service Activities

Deposit Taking

Household International collects deposits through the Household Bank, a six-state chain of federal savings banks that offer savings and checking accounts, residential mortgages and consumer loans. Each of the banks was formerly a troubled savings and loan association that was acquired by Household Financial Services, a subsidiary of Household International. The banks are located in Colorado, Kansas, California, Maryland, Ohio and Illinois. Household Bank is targeting middle market customers with a variety of deposit and loan products designed to appeal to this income range.

Other Consumer Financial Services

Household International makes direct consumer loans through its banking and finance company subsidiaries. It offers bank credit cards through Household Bank. Household's insurance subsidiary, Alexander Hamilton of America, offers life and credit insurance.

Mortgage Banking

Household offers mortgage loans through its banking and finance company subsidiaries. Household Bank Centers has developed an aggressive marketing strategy aimed at middle-income persons ($20,000-$50,000 per year) which includes computer-assisted preapproved mortgage loan commitments. Household has a wide distribution network with over 1,200 financial offices in 46 states.

Commercial Finance

Household International offers capital equipment financing, commercial real estate finance and business equipment leasing and finance.

Regulation

Household Bank is regulated by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Comptroller of the Currency. As a federal savings bank, it is subject to the Community Reinvestment and Home Mortgage Disclosure Act.

Alexander Hamilton Life Insurance Company is regulated by the state insurance agencies in which it operates. Household's consumer and commercial finance companies are also regulated by state or local regulatory bodies.

Subsidiaries

Name	Location of Headquarters	Activities
Household Financial Services	Prospect Heights, IL	Diversified financial services
Alexander Hamilton Insurance Co.	Farmington Hills, MI	Life insurance
Riverside Agency Inc.	Farmington Hills, MI	Insurance
EFI Fund Management	Prospect Heights, IL	Fund management
HFC Income Tax Service	Prospect Heights, IL	Income tax services
HFC Leasing Inc.	Prospect Heights, IL	Equipment leasing
Household Bank	Westminster, CA	Federal savings bank
Valley National Bank	Salings, CA	Commercial bank
Household Manufacturing Inc.	Prospect Heights, IL	Diversified mfg.
Daymart Advertising Assn. Inc.	Minneapolis, MN	Advertising
Eljer	Pittsburg, PA	Vitreos china, plumbing fixtures
Halsey Taylor	Freeport, IL	Water coolers, drinking fountains

Name	Location of Headquarters	Activities
Sellkirk	Logan, OH	Chimneys, fireplaces
U.S. Brass	Plano, TX	Plumbing supplies
Albion Industries	Albion, MI	Industrial casters
Booth Inc.	Dallas, TX	Soft drink dispensing systems
Glemco-Star	Philadelphia, PA	Custom gears
King-Seeley	Kendallville, IN	Refrigerators, freezers
Schwitzer	Indianapolis, IN	Turbochargers, cooling systems
Scotsman	Fairfax, SC	Ice machines and systems
Simonds	Fitchburg, MA	Industrial cutting tools
HFC Trust and Savings Ltd.	Brecknell, Berkshire United Kingdom	Banking, commercial finance
HFC Financial Service Ltd.	Sydney, Australia	Consumer finance, leasing, insurance
HFC of Canada/Household Trust Co.	Toronto, Ontario Canada	Consumer finance and banking

GENERAL ELECTRIC PROFILE

Lines of Business

Technology development and production, diversified manufacturing, mining, communications and related services, investment banking, stock brokerage, property and casualty insurance, mortgage banking, consumer finance, and commercial real estate finance.

1986 Financial Summary

Assets	$34.5 billion
Liabilities	$19.3 billion
Revenues	$36.7 billion
Financial Services Revenues	$585 million
Employees	304,000

Corporate History

General Electric was started on October 15, 1878, with the founding of Edison Electric Light Company, a company formed to support Thomas Edison's efforts to develop the light bulb. It became General Electric Company in 1892. Unlike many other major U.S. corporations, Edison Electric developed international affiliates and subsidiaries almost immediately. By 1901, General Electric had subsidiaries or major contracts in France, Brazil, England, Germany, Japan, Italy, Canada, South Africa and Latin America.

In the late 1970's, G.E. decided to change its product mix so that it was less reliant on manufacturing and depended more on services, including financial services. The 1986 annual report noted that this goal had been acheived with "80% of key business earnings in technology and services." A large part of this transformation was achieved with the 1986 acquisition of Kidder, Peabody, one of Wall Street's oldest investment banking firms. Kidder and G.E.'s finance company subsidiary, General Electric Credit Corporation, work together to make General Electric a strong participant in the financial services market.

Company Structure and Activities

General Electric organizes its various subsidiaries and their activities into four basic units: technology businesses, core manufacturing businesses, service businesses, and support operations. The technology group includes aerospace and defense aircraft, plastics, factory automation and medical systems operations. The core manufacturing group includes construction equipment, lighting equipment, major appliances, motors, and power and transportation systems. The services group includes financial services, communications services, and radio and television broadcasting (NBC). The support services group consists of consumer electronics, corporate trading, semi-conductors, petroleum production, and international operations.

Financial Service Activities

Consumer Services

General Electric Credit Corporation (G.E.C.C.) was originally established in 1932 to finance G.E. appliance installment purchases. It is now among the three largest finance companies in the U.S. and a leader in both consumer and commercial finance. G.E.C.C. reported net earnings assets of $25.2 billion in 1986. G.E.C.C. finances installment credit for the purchase of its own and other company's products. It has become a leader in automobile finance. According to a 1983 study by the Federal Reserve Bank of Chicago, G.E. was among the top 15 consumer installment and revolving credit lenders, ranking above major commercial banks, such as Chase Manhattan and J.P. Morgan. G.E. also manages mutual funds for consumer investments.

G.E.C.C. and Kidder, Peabody combined to become a leader in financing leveraged buyouts and mergers. Kidder participated in 90 such transactions in 1986 involving $23 billion.

Housing Finance

G.E.C.C. has a major mortgage banking operation which originates and services mortgages. G.E.C.C. is also among the leaders in commercial real estate finance.

Commercial Finance

Among its financial services activities, commercial finance is G.E.'s most profitable. G.E.C.C. makes commercial and industrial loans and engages in various types of asset-based financing. G.E.C.C.'s leasing activities also include the operation of aircraft shipping, tanker, railcar and trucking fleets that rank among the largest. G.E.C.C. also leases computer equipment.

Kidder, Peabody is one of the oldest investment banking firms in the country, and was ranked 15th among brokerage houses in the U.S. at year-end 1985. Now a subsidiary of G.E., it provides securities underwriting and other investment banking services to large corporations. The combination of G.E.C.C. and Kidder, Peabody expands General Electric's distribution system for commercial finance significantly.

Insurance

General Electric sells credit life, accident and health insurance to its finance customers, as well as property, casualty, mortgage guarantee, life, health and accident insurance to the general public through its insurance subsidiaries. General Electric is the nation's second largest property and casualty insurer.

Regulation

General Electric's diverse activities are regulated by a wide range of agencies which include the Federal Trade Commission, the Environmental Protection Agency and the Nuclear Regulating Commission. G.E.'s financial activities are also regulated by a variety of agencies. Its securities activities are regulated by the Securities and Exchange Commission. Its insurance activities are regulated by state insurance regulators. Its finance company subsidiaries are also regulated on a state by state basis. Mortgage banking subsidiaries are also regulated on a state by state basis.

Subsidiaries

Name	Location of Headquarters	Activities
Aerospace Group	Philadelphia, PA	Develop and manufacture aerospace and military systems
Aircraft Engine Group	Cincinatti, OH	Manufacture aircraft engine and parts
Lynn Aircraft Engine Products Operations	Lynn, MA	Aircraft engines and parts
Calma Company	Milpitas, CA	Construction equipment
G.E. Consumer Elect-ronics Operations	Portsmouth, VA	Manufacture radio, TV and consumer electronics
G.E. Corporate Trading Company	New York, NY	International trading company

Name	Location of Headquarters	Activities
Engineered Materials Group	Columbus, OH	Silicone sealants and industrial diamonds
Factory Automation Products Division	Charlottesville, VA	Factory automation, robotics
G.E. Credit Corporation	Stamford, CT	Finance company
Decimus Corporation	San Francisco, CA	Computer equipment leasing
G.E. Railcar Services Corporation	Chicago, IL	Lease and repair of railcars
G.E.C.C. Real Estate Financial Service Div.	Stamford, CT	Mortgage brokerage and banking
G.E.C.C. Corporate Finance Services Div.	Stamford, CT	Mortgage brokerage, real estate
Kerr Leasing	Englewood, CT	Truck rental
Employers Reinsurance Corporation	Overland Pk, KS	Property and casualty insurance
Kidder, Peabody and Company Inc.	New York, NY	Investment banking, stock brokerage
Ladd Petroleum Corp.	Denver, CO	Oil and natural gas production
RCA Corporation	New York, NY	TV and radio broad-casing, communi-cations systems, operation of NBC
G.E. Lighting Group	Cleveland, OH	Lights, lamps, batteries and fixtures

Name	Location of Headquarters	Activities
G.E. Major Appliance Group	Louisville, KY	Electric ranges, microwaves, freezers, air conditioners, washers, dryers, etc.
G.E. Medical Systems Group	Milwaukee, WI	Diagnostic imaging equipment
G.E. Motors Group	Ford Wayne, IN	Manufacture of motors and parts
G.E. Plastics Group	Pittsfield, MA	Plastics, resins
G.E. Power Systems	Fairfield, CT	Engineering services and production of steam turbines, electric transmission equipment, construction and operation of power plants
G.E. Electric Environmental Services	Lebonan, PA	Electric precipitators and fabric filters
G.E. Nuclear Energy Operations	San Jose, CA	Technical support services

MERRILL LYNCH PROFILE

Lines of Business

Securities brokerage and related activities, asset management, insurance brokerage and sales, real estate management and brokerage, lease finance, economic research and consulting services, investment banking, mortgage banking

1986 Financial Summary

Assets	$53 billion
Liabilities	$50 billion
Revenues	$9.6 billion
Employees	44,000

Corporate History

Merrill Lynch traces its roots to the securities firm of Barrill and Housman which was incorporated in 1885 and was taken over by E.A. Pierce and Company in 1927. In 1940, E.A. Pierce merged with Merrill Lynch and Company (which had been established in 1914) and Cassatt and Company (established in 1872) to become Merrill Lynch, E.A. Pierce, Fenner and Smith in 1958 and simply the Merrill Lynch Company in 1973.

Throughout its history, Merrill Lynch has engaged in a variety of activities, but has largely concentrated on stock brokerage and investment banking. During the 1970's, Merrill Lynch entered the insurance and real estate industries and developed its consumer finance activities with innovations such as the cash management account, a combination of checking, credit card and investment services.

Company Structure and Activities

Merrill Lynch and Company is a holding company which operates its various financial services activities through its subsidiaries. Merrill Lynch, Pierce, Fenner and Smith Incorporated (MLPFS) is one of the world's largest securities brokerage firms. In 1985, it earned over $2 million in commissions. Merrill Lynch Asset Management Incorporated manages mutual funds and provides investment counseling services. Merrill Lynch conducts its real estate services through Merrill Lynch Realty Incorporated and other subsidiaries, provides insurance through Family Life Insurance Company, provides lease finance through its Merrill Lynch Leasing Incorporated subsidiary, and conducts its international financial services activities through Merrill Lynch International Incorporated. Merrill Lynch shares joint ownership of Tandem Financial Group with Equitable Life Assurance Society, through which it sells premium deferred annuities.

Financial Service Activities

Deposit Taking

While Merrill Lynch does not operate any banks, it does collect deposits through its Cash Management Account which combines money market, checking and credit card accounts. As of December 1986, over one million customers had cash management accounts (CMAs). The CMA can be accessed through an international network of over 15,000 ATMs.

Other Consumer Services

Merrill Lynch has 11,000 financial consultants operating in 475 domestic offices who market the CMA account along with insurance and investment products. Merrill Lynch recently developed the "Equity Access Account" which offers a line of personal credit secured by the customer's home equity.

Commercial Finance

Merrill Lynch provides financing to business through its investment banking, securities underwriting and lease financing activities as well as through some direct commercial loans.

Mortgages

Merrill Lynch does its mortgage banking through Merrill Lynch Mortgage, a subsidiary of Merrill Lynch Realty, Incorporated. Merrill Lynch has considered selling its mortgage banking operations and focusing on other activities. Currently, GMAC services Merrill Lynch's $3.5 billion mortgage portfolio.

Commercial Real Estate

Merrill Lynch finances commercial real estate through various investment partnerships, trusts and other arrangements. In 1985, one particular investment partnership, MLH Income Realty Partnerships, raised over $500 million.

International Activities

Merrill Lynch engages in various investment and merchant banking activities throughout Europe, Asia and Australia.

Regulation

Merrill Lynch's primary regulator is the Securities and Exchange Commission. Its insurance activities are regulated by the state agencies in which they operate. Its mortgage banking activities are regulated on a state by state basis.

Subsidiaries

Name	Location of Headquarters	Activities
Family Life Insurance Co.	Seattle, WA	Insurance
Merrill Lynch Asset Mgt. Inc.	New York, NY	Investment consulting
Merrill Lynch Economics Inc.	New York, NY	Economic consulting
Merrill Lynch Government Securities Inc.	New York, NY	Dealer in government obligations and securities
Merrill Lynch, Hubbard, Inc.	New York, NY	Real estate, asset management and brokerage services
Merrill Lynch, Huntoon, Paige, Inc.	New York, NY	Mortgage banking
Merrill Lynch International Inc.	New York, NY	International merchant banking, investment activities and other financial services
Merrill Lynch Leasing Inc.	New York, NY	Leasing financing
Merrill Lynch, Pierce, Fenner and Smith, Inc.	New York, NY	Broker/dealer of securities and commodities
Merrill Lynch Realty Associates Inc.	Stamford, CT	Real estate brokerage

Name	Location of Headquarters	Activities
Merrill Lynch Realty/ Robedeaux Inc.	Brookfield, WI	Real estate brokerage
Merrill Lynch Realty/ Tom Fannin, Inc.	Phoenix, AZ	Real estate brokerage
Merrill Lynch Re-location Mgt., Inc.	White Plains, NY	Employee benefits consulting firm
Tandem Financial Group	New York, NY	Premium deferred annuities and other products

NOTES

NOTES

1. A money market mutual fund (MMMF) is a fund which invests in money market instruments such as certificates of deposit, commercial paper and treasury bills. Investors receive a high yield and relatively risk-free investment along with some check writing privileges.

2. A "bank" is legally defined as a company that accepts deposits which a customer can withdraw upon demand and engages in the business of making commercial loans. Any company which has a bank charter but legally restricts its activities to only one of these two things is considered a "nonbank bank." Therefore, there are basically two types of nonbank banks, one that has a bank charter and accepts demand deposits, and one that has a bank charter and makes commercial loans.

3. Flow of Funds Accounts: Financial Assets and Liabilities, Year-End, 1987, Board of Governors of the Federal Reserve System.

4. Credit Union Report 1986, Credit Union National Administration, Washington, D.C., 1987.

5. "Commercial paper" is a short-term promissory note issued by a corporation for 270 days or less and sold as a security to investors.

6. For the last several years, Congress has been considering granting banks the authority to underwrite and/or sell securities and insurance. As of this writing, this issue has been hotly debated but not resolved.

7. Many commercial banks, particularly those located in rural areas where there are fewer savings and loan associations, make single-family mortgages. However, for the most part, commercial banks have not concentrated on the residential loan market.

8. General Regulations of the New York State Banking Board, Section 76, adopted December, 1984.

9. Minnesota Interstate Banking Act, Minnesota Statutes, Sec.48.90-51A.58.

10. Annual Survey of Mortgage Lending Activity, United States Department of Housing and Urban Development, Washington, D.C., 1987.

11. The Mortgage and Home Improvement Lending Practices Act, Michigan Public Act No. 135 (approved November, 1977).

12. Operating Ratios and Spreads, Midyear 1987 Report, Credit Union National Association.

13. Monthly Credit Union Estimates, Credit Union National Association, November, 1987.

14. Ibid.

15. Annual Survey of Mortgage Lending Activity.

16. A very large and active secondary market for mortgage loans has developed in the past decade. The secondary market consists largely of governmental, quasi-governmental and private institutions which buy and pool together large numbers of mortgage loans and sell interest-bearing bonds backed by these mortgage loans to individual and institutional investors. The vast majority of mortgage-backed securities is sponsored by three governmental or quasi-governmental agencies, the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal Home Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), although privately sponsored mortgage-backed securities are becoming more common. According to HUD's survey of mortgage lending activity, federally sponsored mortgage pools accounted for roughly 60% of all home loan acquisitions in the United States in 1986.

17. The Residential Mortgage Licensee Act, Illinois Revised Statues, chapter 17, paragraphs 2301-2304.

18. The Mortgage and Home Improvement Lending Practices Act.

19. "The American Banker Annual Survey of the Finance Company Industry," The American Banker, New York: June 16, 1986.

20. Financial Institutions in Transition, Federal Reserve Bank of Cleveland, Cleveland, 1985.

21. Finance Facts Yearbook, American Financial Services Association, Washington, D.C., 1987, pg. 45.

22. Financial Institutions in Transition.

23. Statute 56, the Regulated Loan Act, and Statute 53, the Industrial Loan Act, of the Minnesota State Code provide the State Commerce Department, Division of Financial Examinations with the authority to set interest rate ceilings based on certain formulae.

24. Flow of Funds Accounts: Financial Assets and Liabilities. (The figure for insurance company assets includes all types of insured companies.)

25. Annual Survey of Mortgage Lending Activity.

26. The Glass-Steagall Act, technically the Banking Act of 1933, prohibits banks from underwriting securities and restricts their ability to engage in brokerage activities.

27. See Note 4.

28. These are approximated costs for the purpose of illustration. Utility costs are conservative given Illinois' utility rates.

29. This information was gathered through a 1987 Woodstock Institute telephone survey of regulators in Illinois, California, New York, New Jersey, Texas, Florida, Wisconsin and Michigan.

30. The Consumer Federation of America's 1987 annual survey of bank fees found:

> "fees for routine services rising sharply for most depositors. High balance requirements and high fees have combined to make interest bearing checking accounts unavailable to nearly half of American families. Including all fees and interest payments, the cost of the average NOW account to a small depositor has risen 11.8% in just one year, following increases of 13.1% (1984-1985) and 12.3% (1985-1986). Noninterest checking accounts registered an average cost increase of 7.6%, following 5.2% and 3.3% increases in previous years."

Source: Fourth Annual Survey of Bank Fees in Consumer Accounts. Consumer Federation of America, Washington, D.C.

31. These business or industry directories include the following:

Dunn and Bradstreet's Million Dollar Directory and Moody's Bank and Finance Manual; Macmillan's Corporate Finance Bluebook and Directory of Corporate Affiliations, and Standard and Poor's Register of Corporations, Directors and Executives.

RESOURCE LIST

RESOURCE LIST

Publications on the Changing Structure of the Financial Services Industry:

Restructuring Financial Markets: The Major Policy Issues, A Report from the Subcommittee on Telecommunications, Consumer Protection and Finance of the Committee on Energy and Commerce, U.S. House of Representatives. Washington, D.C.: U.S. Government Printing Office, July 1986.

Leveling the Playing Field: A Review of the DIDMCA of 1980 and the Garn-St. Germain Act of 1982. Federal Reserve Bank of Chicago, 1983.

Pavel, Christine, and Rosenblum, Harvey, "Banks and Nonbanks: the Horse Race Continues," Economic Perspectives. Federal Reserve Bank of Chicago, May/June 1985.

Rosenblum, Harvey, "Banks and Nonbanks: Who's in Control?," Bankers Magazine, September/October 1984.

Rosenthal, Clifford N., "Financial Services for the Poor," Social Policy, Summer, 1984.

Pogge, Jean, "Reinvesting in the Future," Economic Development and Law Center, forthcoming issue.

Legislative Sourcebook on Financial Deregulation, National Center for Policy Alternatives, Washington, D.C. 1988.

The Megafinancials, National Training and Information Center, 1984.

Harless, Doris E., Nonbank Financial Institutions, Federal Reserve Bank of Richmond, October 1975.

Lemahn, Nicholas, "Change in the Banks," Atlantic Monthly, August 1985.

Glossaries:

Federal Reserve Board of Governors Glossary. Glossary of terms related to financial institutions, instruments, transactions, laws, regulators and regulations.

National Training and Information Center Glossary. The publication, The Megafinancials, contains a fairly extensive glossary of terms.

Public Policy Organizations:

Association of Community Organizations for Reform Now (ACORN), 300 Flatbush Avenue, Brooklyn, NY, 11217, tel: (718) 789-5600.

Bankwatch, P.O. Box 19367, Washington, DC, 20036, tel: (202) 387-8030.

Center for Community Change, 1000 Wisconsin Avenue, Washington, D.C., 20007, tel: (202) 342-0519.

Massachusetts Urban Reinvestment Advisory Group (MURAG), 3710 Washington Street, Boston, MA, 02130, tel: (617) 522-2077.

National Center for Policy Alternatives, 2000 Florida Avenue, N.W., Washington, D.C., 20009, tel: (202) 387-6030.

National Training and Information Center, 954 West Washington, Chicago, IL, 60607, tel: (312) 243-3035.

Woodstock Institute, 53 West Jackson Boulevard, Suite 304, Chicago, IL, 60604, tel: (312) 427-8070.