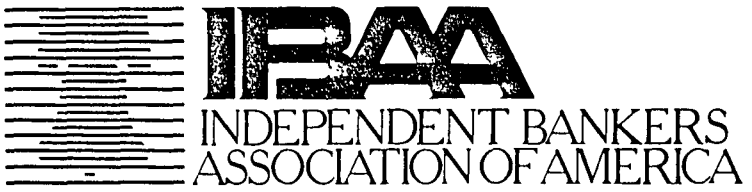

April 14, 1987

Dear Community Banker:

It is an honor for me to be able to write you this important letter in my new capacity as President of the IBAA.

As you know the full Senate has now passed ambitious banking legislation and the House will soon consider its version of an FSLIC recapitalization bill and a check-hold bill.

When this is done House and Senate conferees, who have yet to be named, will draft the final version of the legislation which will be presented to both Houses for final passage and then to the President for signature or veto.

This legislative process is a high-stakes game. It will affect the future shape of our nation's financial system and the future role of community banks within this system.

We realize that you have received all kinds of material on the pending legislation. We also realize that some of the material you have received may be confusing and even contradictory.

You have also been asked to lobby this legislation and, again, the lobbying requests have not been consistent.

We do think that you should lobby this legislation and we hope that you will lobby the IBAA position by contacting your House member now. The IBAA's only constituency is the community banker--something no other national trade association can say.

But we also think that first you should understand what is in the legislation and what the conferees will be called upon to consider. Towards this end we have prepared the enclosed White Paper.

Please read it, make up your own mind, and then call your Congressman.

Sincerely,

Tom H. Olson

THO:dm
Enc.

Thomas H. Olson
President

WHAT YOU SHOULD KNOW ABOUT THE SENATE'S BANKING BILL

The Senate recently passed--by 79-11--the Competitive Equality Banking Act, S. 790. Here are answers to some questions about it:

Title I - Closing the Nonbank Bank Loophole

Q. Doesn't the bill go too far by grandfathering all nonbank banks in existence as of March 5, 1987?

A. There are still only around 160 nonbank banks--compared to 14,000 commercial banks. Excluding industrial banks, there are only 79 FDIC-insured nonbank banks. But, only 13 of these are affiliated with firms in general commerce. It is these firms, like Sears, which pose the greatest threat to community banks because of their current nationwide operations. Unless the nonbank bank loophole is closed now other commercial firms may get into the business in your hometown. In formal Senate testimony Chairman Volcker said that the nonbank bank issue "is not...out of the barn."

Q. Aren't the bill's restrictions on grandfathered nonbank banks rather weak?

A. No, they cannot undertake any new activities, including new forms of joint marketing with affiliated companies. And, one year after the bill becomes law, a 7% growth limit is slapped on. Nonbank banks are subject to the Bank Holding Company Act's anti-tying rules and the Federal Reserve Act's insider and preferential lending restrictions. Finally, a nonbank bank cannot let an affiliate incur any overdrafts and cannot incur any daylight overdrafts with the Fed for an affiliate.

The opponents of the nonbank bank provisions made clear in the committee report what they think of these provisions. They say:

> First and foremost, virtually all the provisions in Title I effect changes that are both substantial and permanent. The nonbank bank loophole is closed permanently. Current nonbank banks are grandfathered permanently with permanent restrictions...The bill is not a "temporary freeze;" it is a deep freeze that is unlikely to thaw soon.

Q. Why can't the nonbank bank issue be put aside for now so that Congress can pass the urgent recapitalization of the savings and loan insurance fund (FSLIC)?

A. Our answer is emphatic: The nonbank bank issue must NOT be put aside. In a recent letter, Chairman Volcker characterized both the FSLIC and nonbank bank provisions as "essential." Unless the loophole is closed, nonbank banks could proliferate and existing ones expand so that Congress will not have any meaningful options

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when it takes up broad financial legislation. And, closing the loophole is a key adjunct to the FSLIC recapitalization. Unless the loophole is closed, firms that might be willing to help FSLIC by buying a failing thrift will, instead, open nonbank banks.

Finally, the FSLIC bill is the only banking legislation that the Treasury Department wants in this Congress. What passes in the next few months could be the only banking bill enacted by the 100th Congress. The longer we wait to close the loophole the more politically powerful companies will enter the business, making the job that much harder.

Title II - Moratorium on Bank and Thrift Activities

Q. Won't this moratorium be extended time and again, just like the Reg. Q interest rate ceilings?

A. Chairman Proxmire and seven of his key committee supporters have said, "No." They signed a statement pledging, "(We) will oppose any effort to extend the moratoria and restrictions..." The entire Senate joined them, adding an amendment which states: "(It) is the intent of the Senate not to renew or extend the moratorium..." Most importantly, pressure in the marketplace and in state legislatures will make extensions impractical and ineffective. Even Reg. Q fell quickly in the face of high market rates. The moratorium provisions will face similar pressures.

Q. Will I have to stop anything I'm doing to comply with the moratorium?

A. Absolutely Not! It only applies to new activities. And, it is vital to remember that the moratorium does not apply at all to the insurance activities of small bank holding companies--under $50 million in assets--or to bank holding companies and national banks in towns under 5,000. And, specifically exempted from the moratorium is the ability of state legislatures to authorize new insurance powers for state-chartered banks.

New real estate and securities powers authorized by federal agencies or by state legislatures would be blocked, but for less than a year. Finally, the moratorium would last only until March 2, 1988, under the Senate bill.

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