Approved February 28, 1983
Date

MINUTES OF THE House COMMITTEE ON Commercial & Financial Institutions.

The meeting was called to order by Representative Harold P. Dyck at
Chairperson

3:30 ~~a.m.~~/p.m. on February 24, 1983 in room 527-S of the Capitol.

All members were present except:

Representatives Teagarden and Wilbert, excused

Committee staff present:

Bill Wolff, Research Department
Bruce Kinzie, Revisor of Statutes' Office
Martha Evans, Committee Secretary

Conferees appearing before the committee:

Representative Robert Vancrum
J. Wesley St. Clair, Southgate Bank & Trust
Tim Underwood, Kansas Association of Realtors
Marvin Umholtz, Kansas Credit Union League
Jim Maag, Kansas Bankers Association
Paul Flower, Kansas Real Estate Commission

Chairman Dyck welcomed those present and announced that hearings on HB 2195 would begin.

HB 2195 - An act concerning certain financial institutions; relating to the performance of certain services as investment, financial or business advisers or other financial, economic, business, broker or related services; amending K.S.A. 9-1101 and 17-5501 and K.S.A. 1982 Supp. 17-2204 and 58-3037 and repealing the existing sections.

Representative Robert Vancrum, the sponsor of HB 2195, was the first conferee to appear as a proponent of the bill. Rep. Vancrum said that he originally intended to introduce the bill to correct what he believed was an unintentional restriction concerning the brokerage of businesses in Kansas. He said that the bill had been broadened to include investment advice, financial advice, and payroll and accounting services because of concerns in the banking community. (Attachment 1)

Mr. St. Clair, Chairman of the Board and President of Southgate Bank and Trust in Kansas City, testified in favor of HB 2195. He said that this bill would provide state banks an opportunity to provide additional service to the community and at the same time be compensated for these services. He further contended that the passage of this bill would put state banks in a competitive position with bank holding companies and other banks across the nation. (Attachment 2)

Tim Underwood, Director of Governmental Affairs for the Kansas Association of Realtors, spoke in opposition to the bill. He told the committee that the bill was unfair to those who hold themselves out as licensed brokers or salespeople. He said that this bill would provide an exemption for many who might want to circumvent the Real Estate License Law. (Attachment 3)

Marvin Umholtz of the Kansas Credit Union League told the committee that on HB 2195 he was speaking as a staff person and that there had been no official examination of the bill. He said that credit unions would not be opposed to the bill although they were not necessarily wanting to move into the area of real estate. He said the financial marketplace was changing and if the committee saw fit to pass the bill that they would like to see some amendments added to make it more appealing to the credit unions. (Attachment 4)

Jim Maag of the Kansas Bankers Association spoke briefly. He said that Mr. Umholtz had said about what he would want to say and that he had a hand-out on the matter for committee members. (Attachment 5)

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Commercial & Financial Institutions,

room 527-S, Statehouse, at 3:30 ~~a.m.~~/p.m. on February 24, 1983.

Mr. Paul Flower, Director of the Real Estate Commission, asked to be heard. He said the Commission had considered HB 2195 at their meeting in early February and had studied it prior to that meeting. He said that the Commission wanted to go onto record as opposing Section 4, sub-section 1, lines 640 to 646, inclusive. He said that banks and S&L's can presently sell property that they acquire in the course of their business and that this is not a broadening but a clarification. However, they do oppose this bill because there is nothing in it to prohibit a person who could not qualify for a real estate license from seeking employment in one of these institutions and then proceed to conduct regular licensed activities and nothing in the bill to prohibit these institutions from performing brokerage functions.

The hearings were concluded and the Chairman turned the committee's attention to HB 2127.

HB 2127 - An act relating to credit unions; concerning the investment of moneys therein; amending K.S.A. 16-301, 16-302 and 16-304 and K.S.A. 1982 Supp. 16-303, 17-5002, 58-1203 and 58-3061 and repealing the existing sections.

Representative Holderman moved that the bill be passed out of committee favorably. Representative Jarchow seconded the motion and the motion carried.

Attention was then turned to HB 2385. Dr. Wolff explained the bill and there was discussion on removing Section 5 as the Bank Commissioner had requested.

HB 2385 - An act relating to banks and banking; concerning certain exceptions to loan limitations; amending K.S.A. 9-1104 and repealing the existing section.

Representative Jarchow made a conceptual motion to amend HB 2385 by removing Section 5 from it. Representative Sand seconded the motion and the motion carried.

Representative Ott then moved that the bill be passed favorably as amended. Representative Louis seconded the motion and the motion carried.

Next the committee considered HB 2001 and possible limitations and amendments to the bill. The Chairman passed out some possible amendments (Attachment 6) because the committee had shown an interest in limitations and this, he said, would present a starting point. He suggested that member of the committee take them home with them and study them over the weekend. Bill Wolff of the Legislative Research Department then explained what the different amendments would do to the bill and explained that the bill itself was a simple repealer of the existing prohibition against holding companies and had no limitations. The Chairman announced that no action would take place on HB 2001 on Monday because some of the committee members could not be present and had asked him to withhold doing anything with the bill on that day.

Representative Ott moved that minutes of February 16, 21 and 22, 1983, be approved. Representative Louis seconded the motion and it carried.

The meeting was adjourned by the Chairman at 4:30 p.m.

The next meeting of the committee will be held at 3:30 p.m. on February 28, 1983.

DATE Feb 24, 1983

GUEST REGISTER

HOUSE

COMMERCIAL & FINANCIAL INSTITUTIONS

NAME	ORGANIZATION	ADDRESS
Barbara Collins	Wy. Co. Board of Realtors	KC Ks.
Bud Collins	Rite-Way, Realtors	KC K.
Jean Duncan	KREC	Topeka
Paul Flower	K.R.E.C.	Topeka
Tim Underwood	KAR	Topeka
Pam Sjoholm	Kansas Ins Dept	Topeka
Marvin Umholtz	KCUL	Topeka
Linda Sheetz	KIBA	"
Ron Smith	KIBA	Topeka
M. Toews	KAEG	T
John Peterson	KAFG	Topeka

STATE OF KANSAS

BOB VANCRUM
REPRESENTATIVE, TWENTY-NINTH DISTRICT
OVERLAND PARK
9004 W. 104TH STREET
OVERLAND PARK, KANSAS 66212

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
VICE CHAIRMAN FEDERAL AND STATE AFFAIRS
MEMBER ASSESSMENT AND TAXATION
EDUCATION

HB 2195

Testimony of Robert J. Vancrum

To: House Commercial and Federal Institutions Committee - February 24,1983

Thank you Mr. Chairman and members of the committee for giving me the opportunity to appear before you this afternoon. Also present to speak as a proponent of this bill is a banker from my area, who will also introduce testimony from certain realtors in the area who support the bill. We will try to be brief in our comments.

I originally had intended to introduce HB 2195 to correct what I believe is an unintended restriction concerning the brokerage of businesses in the State of Kansas. The bill has been broadened to include investment advise, financial advice, and payroll and accounting services because of some general concerns which are beginning to arise in the banking community.

Let me address the business brokerage matter first. Bankers and heads of other financial institutions are frequently approached to act as a broker in the sale of businesses. In fact, I suspect that in some areas the officers in many cases already perform these services because their standing in the community virtually requires it. Nevertheless, our laws regulating real estate brokers and sales people clearly do not exempt employees of a financial institution from registration as a real estate broker even if the real estate is a relatively minor part of the business being bought or sold. Furthermore, since a state bank in Kansas

Attachment 1
House C&FI Comm Feb. 24, 1983

has only the powers expressly granted to it by Article 9 (and the same is generally true of other financial institutions under their enacting statutes), I am concerned that a bank employee who accepts a fee or commission on behalf of the bank for performing such services is probably acting beyond the bank's scope of authority. I have therefore proposed in Section 4(1) to exempt these activities from real estate licensing and in Section 1(17) to specifically authorize them when performed by a bank. Sections 2 and 3 merely repeat this authority for a credit union or savings and loan officer. Please note that we already permit railroads, utilities and corporations to buy and sell real estate of their own if it is incidental to their other activities. I see no reason why an incidental sale of real estate as part of the sale of a business should also not be exempt to a financial institution acting as a broker.

The issue addressed in Section 1(16) is of course much broader. Bank trust departments already provide investment advice for a fee. Furthermore, the commercial departments of many banks are increasingly called upon to provide financial assistance to small businesses. Large bank holding companies in other states are already permitted to engage in these activities on either a fee or commission basis. I am concerned that our state banks, particularly in the large metropolitan areas, are already at a competitive disadvantage since current laws to not permit the bank to offer such services, and the One-Bank Holding Companies permitted in Kansas do not generally have the resources to do so. Naturally if the Federal Government were ever to permit inter-state activities by multi-bank holding companies, our state banks would be faced with direct competition and have no ability to enter into the market.

I have received suggestions from both realtors and the securities commissioner concerning language which would reduce the scope of these changes somewhat. Some of that criticism is well founded. It would be fine, for instance, to qualify Section 1(17) by providing that advice concerning sales of "all of" the stock or assets of a business would be exempt. I do not believe financial institutions are interested in providing advice as to sales or purchases of small blocks of stock for persons who are regular customers. On the other hand, I do not feel that a bank should be forced to register as an investment advisor for rendering what is essentially business advice, particularly when the trust department of many banks are clearly exempt from registration.

I would of course be happy to answer questions either now or after the testimony of Mr. St.Clair

Southgate BANK and TRUST COMPANY
OF KANSAS CITY

February 24, 1983

To Commercial & Financial Institutions Committee:

RE: House Bill # 2195
Broker & Investment Activities

Thank you for giving me this time to appear here today in favor of House Bill # 2195.

As all of you know, commercial banking is going through many changes and it is anticipated that the net interest margin of banks will decrease in the future and some banks are already experiencing lower net interest margins.

It is apparent that in order for banks to continue to serve their communities and offer competitive and the least possible interest rates to businesses and consumers, that they must obtain additional income from other sources.

This bill would provide state banks an opportunity to provide additional service to our community, but at the same time, be compensated by a fair price for these services. It would also put us in a competitive position with bank holding companies and other banks throughout the nation.

It is our opinion that these additional services will bring new business to the State of Kansas and provide new job opportunities, as we are planning to hire three additional people if this bill is to become a law.

Also, it is not our intent to be in competition with Real Estate Brokers, but sometimes when a business is sold, the assets are sold rather than stock and the assets may include Real Estate.

Attached to my statement are two letters, one from a Real Estate firm and the other from another bank in favor of the bill.

If any of you have any questions, I will be glad to try to answer them.

J. Wesley St. Clair

J. Wesley St. Clair
Chairman of the Board
and President

Attachment 2
House C&FI Comm 2/24/83

FIRST CONTINENTAL
BANK & TRUST

February 24, 1983

TO: Commercial & Financial Institutions Committee

RE: HB 2195

We are strongly in favor of this bill which will enable us to better serve the needs of our customers and allow us to compete in this rapidly changing environment. We feel there is a great need for all financial related services to be offered by banks, not only to retain that customer relationship, but to keep the funds in our community.

James E. Sheridan

James E. Sheridan, President

Main Bank • 95th & Mission Road • Overland Park, Kansas 66206 • 913/381-1000
Blvd. Branch • College Blvd. & Antioch • Overland Park, Kansas 66210 • 913/381-1000
Member FDIC

850 City Cent… …quare
1100 Main Street
P.O. Box 26690
Kansas City, MO 64196
(816) 471-0700

Roger L. Cohen & Co.

Commercial Realtors

Asset Management
Industrial Properties
Investment Properties
Office Properties
Retail Properties

February 24, 1983

House Commercial and Financial
Institutions Committee
State of Kansas
Capitol Building
Topeka, Kansas 66612

Re: House Bill 2195

Gentlemen:

My good friend, Wes St. Clair, President of the Southgate Bank & Trust Company of Prairie Village, Kansas has presented to me a draft of Proposed House Bill 2195 for review.

As one of the largest commercial real estate brokers in the State of Kansas, I believe that this bill will stimulate business activity for the State of Kansas thereby producing greater revenues for the entire business community and I support it in concept.

Although our primary offices are in Kansas City, Missouri, we operate a number of projects and properties in Kansas and are most interested in any activities which will stimulate additional business.

Yours truly,

ROGER L. COHEN & CO.

Roger L. Cohen, S.I.R.
Chairman of the Board

RLC/mc

The Office Network™

INDIVIDUAL MEMBERSHIPS

HOUSE COMMERCIAL AND FINANCIAL INSTITUTIONS COMMITTEE

HB 2195

Mr. Chairman, Members of the Committee:

My name is Tim Underwood. I am the Director of Governmental Affiars for the Kansas Association of REALTORS.

I appear before you today to strongly oppose HB 2195. The effects of this bill are many and far ranging. In addition to the new activities authorized by this bill, such as acting in the capacity of a financial consultant and business broker, the bill would allow these financial institutions to get into the real estate brokerage business without the necessity of obtaining a Kansas Real Estate License. Our Association has always supported a strong real estate License Law, which provides some assurances to the general public that those they are dealing with in a real estate transaction meet certain criteria set forth in the Law. The Kansas Real Estate License Law also provides for a recovery fund which the public can make a claim against should a licensee break the law and cause a loss to the claimant.

By exempting financial institution employees from the License Law when acting in the capacities outlined in the bill, you take away access from the recovery fund and provide no criteria for those acting as a broker or salesperson. We think that this action would be unfair to those who hold themselves out as licensed brokers or salespeople. The License Law was adopted to regulate the real estate industry and this bill would provide an exemption for many who might take advantage of the exemption.

The Association has no opposition to financial institutions buying property to be owned by the institution or to these institutions selling property owned by the institution by employees who are not licensed. A bill in the Senate Federal and State Affairs Committee should clarify this situation. It would allow employees of financial institutions to sell properties taken in on

-Cont.-

Attachment 3

House C&FI Comm 2/24/83

foreclosures, for example. We are opposed to financial institution employees acting as brokers for their clients in buying and selling properties not owned by the institutions.

The bill would also set up a double standard in that it would allow state chartered institutions to perform these activities while federally chartered institutions could not.

We, therefore, ask the Committee to delete the exemption from the License Law and ask that, if the rest of the bill is to be considered, that a specific reference be added that would prohibit any real estate brokerage from the permitted activities.

There is only one positive aspect of the bill that we find. As you are all aware, the last few years have been very bad for the real estate market. We are encouraged for the future if these financial institutions think the real estate brokerage business will be worth getting into. We hope they are right.

Thank you very much for allowing us to present our testimony. We urge the Committee to keep financial institutions from competing in an unfair way with licensed real estate professionals.

Conglomerates seek new market positions

Services and delivery systems will improve because of innovative mergers

ACQUISITIONS AND MERGERS are taking place between insurance companies and brokerage houses, between banks and brokers, between merchandisers and financial houses. Even manufacturers are going into the financial business.

What does all this maneuvering mean to credit unions? For one thing, it means that the financial marketplace is changing. In this era of deregulation, financial-service firms are positioning themselves to get—or at least keep—a share of the market.

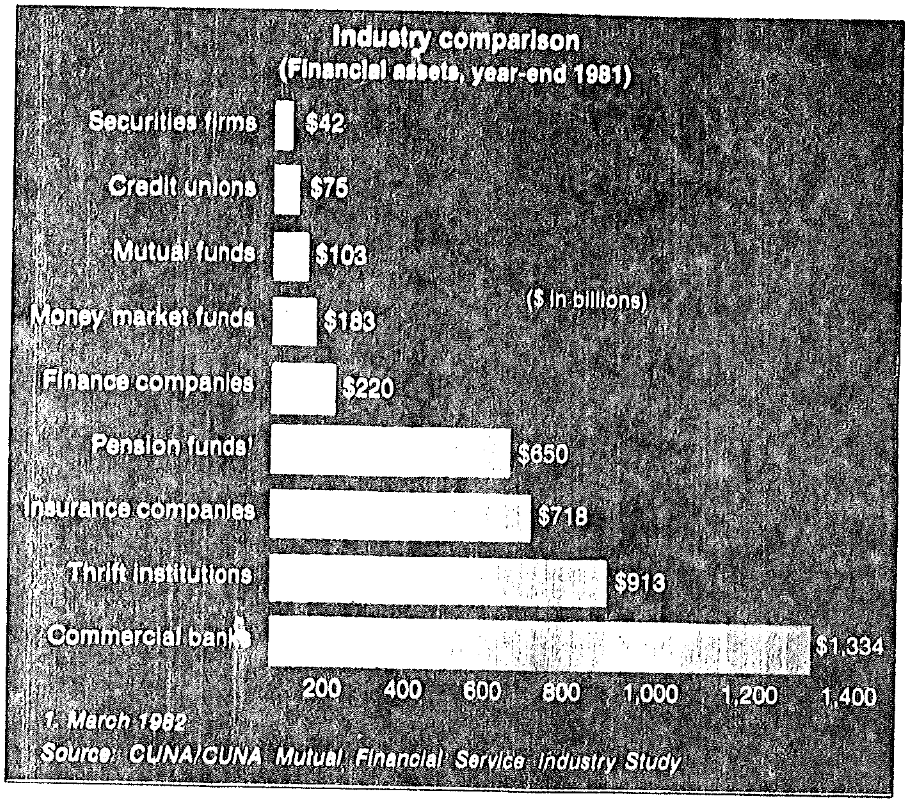
The result will be some new faces dealing in financial services, and old faces will be uplifted. The facial uplift will come with new mechanisms to deliver services: national automated teller (ATM) exchanges, regional franchise banking, and home banking using the telephone or cable television systems.

Some mergers will lead to department-store-type financial institutions. They will offer every conceivable financial service a person needs. And if CUNA President Jim R. Williams is right, they may well demand business relationships to qualify for their services.

He believes that the market maneuvers are ultimately aimed at "capturing" the customer. The strategy, he says, is "If you don't check and save with us, you don't get loan services."

It is really a return to the old ways of business and banking when total business relationships were required, Williams explains.

Planners from CUNA and CUNA Mutal Insurance have been monitoring



the competition to analyze their plans and objectives, and here is some of what they have found:

The new Sears

Sears' goal is to become the leading purveyor of consumer financial services. It has acquired Coldwell Banker, the largest independent commercial and residential real estate broker in the country; also Dean Witter Reynolds, the nation's fifth largest stock brokerage, with offices in 50 states and Washington, D.C.

Add to those the Allstate insurance group and the Seraco Group, which includes an executive transfer service, a mortgage banker, specialty insurance companies, and Allstate S&L. The combination forms a financial conglomerate.

Sears' 859 stores could double as full-scale financial service branches. The 48 million households with Sears cards are potential users of electronic services. Make those credit card holders into dual credit/debit cardholders, and they look just like checking accounts.

Attachment 4

House C&FI 2/24/83

Service comparison
(Selection of new competitors)

MAJOR SERVICES OFFERED	American Express	Citicorp	Merrill Lynch	Prudential	Sears	CU
Financial						
Intermediation						
Share drafts/checking		●	●[1]			●
Savings		●	●[1]			●
Consumer loans	●	●	●	●	●	●
Real estate loans	●	●	●		●	●
Credit, debit cards	●	●			●	●
Travelers checks	●	●				●
Brokerage and investments						
Real estate brokerage			●		●	
Commodities brokerage	●		●	●	●	
Investment management	●	●	●[1]	●	●	
Money market funds	●		●	●	●	●[2]
Cash management account	●		●	●	●	
Insurance						
Traditional life & health	●		●	●	●	●[3]
Property & casualty	●			●	●	●[3]
Credit					●	●[3]
Mortgage life					●	
Nonfinancial						
Data processing	●	●	●			
Leasing	●	●	●	●		
Travel agency (service)	●					
Technical assistance						●[4]
Legal assistance						●

1. Through the cash management account
2. Money market certificates
3. Through the CUNA Mutual Insurance Group
4. Financial counseling

Source: CUNA/CUNA Mutual Financial Service Industry Study

Such an addition would enhance Sears' new money market fund (MMF), which topped $100 million in net assets three weeks after it was introduced in a test market last spring.

Roll the services of these companies together, and the Sears financial group could sell a person's home, transfer him, help him buy another home, finance it, insure it, insure the loan, insure the customer, insure his car, and provide for his financial needs.

American Express/Shearson

American Express, with 13 million

cardholders, acquired Shearson, Loeb, Rhoades last year, and in doing so gained 320 offices and 4,000 brokers. Since then it has bought regional securities firms in the southeast and northwest. It already owned the Fireman's Fund Insurance Group.

According to the CUNA/CUNA Mutual study, the goal of American Express is to attract high net worth customers.

In July, American Express began test marketing individual retirement accounts and two new money market funds to cardholders.

Merrill Lynch and Banc One

Merrill Lynch & Co. teamed up with Banc One in Columbus, Ohio a few years ago to introduce the Cash Management Account (CMA). For $20,000 in cash or securities, anyone can open a CMA.

The CMA customer receives investment advice, a checkbook, and a Visa debit card, and can borrow against the value of his securities. Cash is invested in money market funds.

CMA customers number more than 600,000 at Merrill with about 7,000 signing up weekly.

Success of the Merrill Lynch CMA has prompted at least five other major brokerage firms to introduce their own such accounts.

The old view of Wall Street firms dealing only in equity disappeared when investment in the stock market dried up.

Prudential and Bache

Bache Halsey Stuart Shields is one of the firms that followed suit with its own CMA — the Bache Command Account. Bache was acquired last year by the Prudential Insurance Co.

Prudential has 26,500 agents, 6,000 of whom are licensed to sell Bache mutual funds. The 3,000-member Bache sales staff is available to sell Prudential's products.

Bache's experience in investment banking will enable Prudential to offer bank-like services through MMFs— services such as credit cards and check writing.

The CMA and MMF innovations of recent years have raised havoc in the market. Investment firms and insurance companies drained money from deposit-taking institutions, so they are striking back.

Banks and savings and loan (S&L) associations can't compete directly with the MMFs because they are required to reserve against deposits. The Glass-Steagall Act doesn't permit them to issue securities, and the McFadden Act won't let them operate interstate.

To circumvent these laws, the institutions are forming holding companies.

S&L broker

For instance, Coast Federal S&L, Sarasota, Florida, signed up 200 S&Ls late last year to participate in Savings Association Financial Corp., a holding company that owns Savings Association Investment Securities, which handles the brokerage business. Coast Federal contends that they aren't violating Glass-Steagall because brokers are salaried and clients are drawn from S&L customers.

Bank approaches

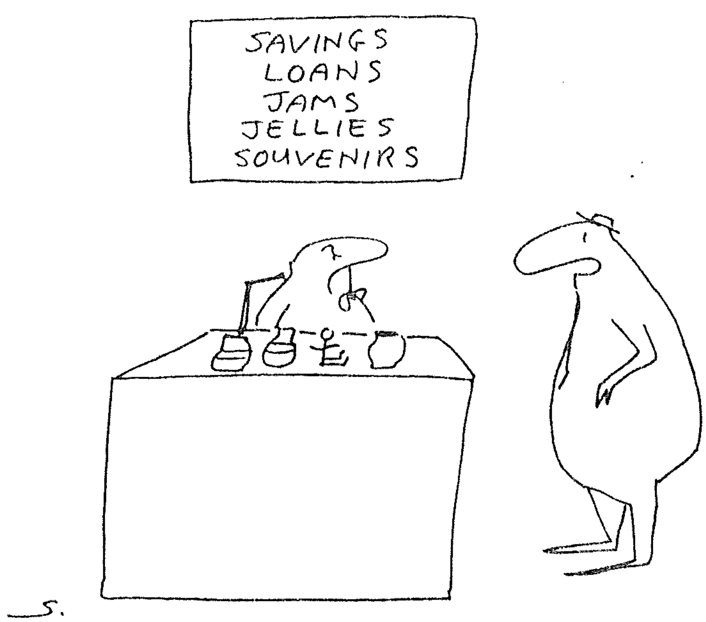
Smaller, community banks have suffered most from the competition of MMFs. Large, money-center banks actually may have benefited because the MMFs invested in their jumbo certificates.

One response by the smaller banks has been to form a subsidiary company. For instance, 13 state banker associations in the midwest created a jointly owned company called Mid-America Bankers Service Co., or MABSCO.

MABSCO's first product is a Financial Management Account. Each participating bank acts as an agent linking a customer's checking or NOW account with an MMF managed by MABSCO. The setup works much like Merrill Lynch's CMA, with excess funds automatically "swept" into the MMF.

While these efforts are meant to prevent further erosion of deposits, the banks actually may be "cannibalizing" their own deposits.

Larger banks are looking more at the department store approach. Bank



"Finding it a little hard to keep up with the other financial institutions?"

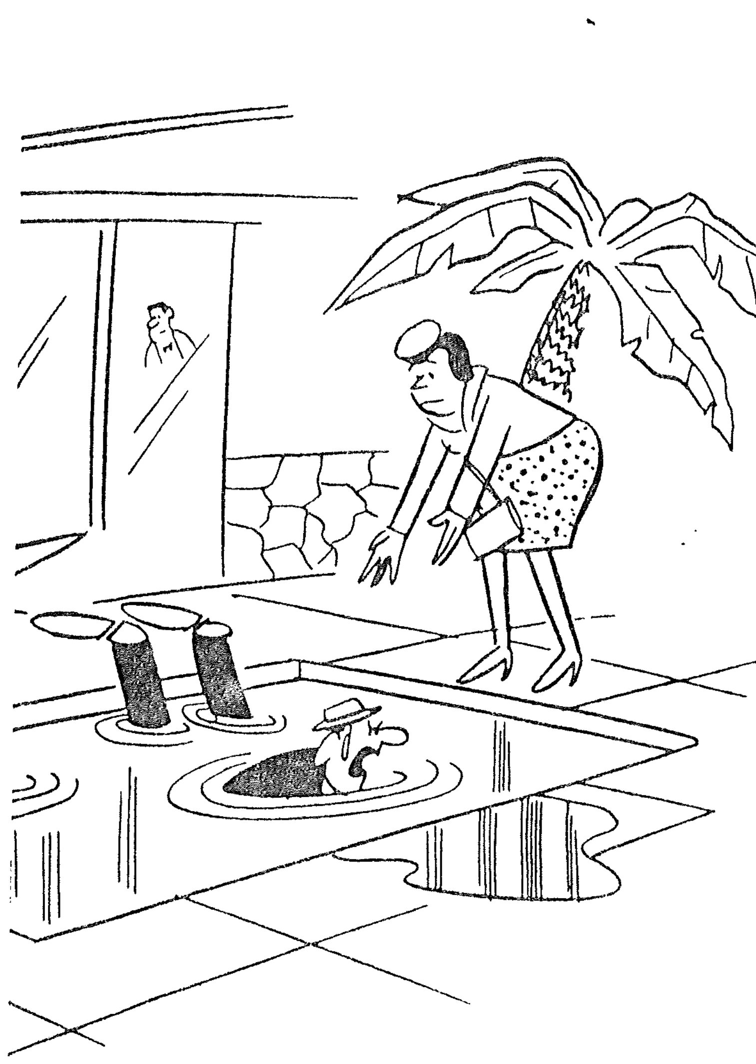
of America, largest in the nation, with $121 billion in assets, merged with Charles Schwab & Co. earlier this year. Schwab is the nation's largest discount broker, with 40 some offices in 19 states. The merger lets the bank execute buy and sell orders for securities.

Banks also are positioning themselves for the day when interstate branch banking is allowed. Citicorp has 170 consumer finance offices in 27 states. The Citicorp offices can be quickly converted to Citibank branches if and when the McFadden Act is repealed.

Meanwhile, franchise banking is another way to work around interstate branching. Twenty-one banks in 11 western states have formed first Interstate Bancorp, based in Los Angeles.

The First Interstate program ties the franchise banks together with a telecommunications network by telephone lines and satellite. The program calls for a single bank card, and teller terminals will be able to access customer account information. Franchise banks will be named First Interestate Bank of their particular locale.

Six national electronic banking networks are being built to accomplish much the same task. These networks are made up of ATMs, and the CUNA/CUNA Mutual study predicts that within the next year most banks will affiliate with one of the six networks.



"If you ask me they're making these banks too damn fancy!"

Other competitors

Strange new names are appearing in the finance business. Consider Parker Pen Co. in Janesville, Wisconsin, and Baldwin-United Corp., the Cincinnati-based piano manufacturer.

Parker Pen created First Deposit Corp. in 1981, and through acquisition, is going into consumer financial services. In 1981, it bought a bank in New York, an S&L in California, and an insurance company in Arkansas.

The plan is to build a national consumer deposit and lending service for the "mid-scale" market using direct mail and telephone marketing.

Baldwin United purchased MGIC Investment Corp., Milwaukee, the parent of Mortgage Guaranty Insurance Corp., which is the nation's leading private mortgage insurer. It already owns insurance companies, a finance company, and an S&L.

It took options on eight S&Ls in five western states last year, giving the piano maker interests in insurance, banking, S&Ls, mortgage banking, and leasing.

Competition for credit union deposits recently came from another new source. Just this summer, Ford Motor Co. announced that it is opening its Ford Money Market account to hourly employees. The fund had been offered to Ford's salaried employees for about a year, and is offered with payroll deduction.

The fund is not a true money market fund because it invests only in floating-rate commercial paper of Ford Motor Credit, the company's sales finance company. The program was offered to Ford employees to get money into company coffers after Standard & Poor's downgraded Ford's commercial paper.

Some of the mergers and acquisitions are purely attempts for companies to diversify. Others are aimed at gaining new markets and cross-selling services. But it will take awhile for the newly merged companies to sort things out and form a marketing plan.

For instance, the agents for the insurance company won't divulge the names of their customers to brokers in the securities firm with which it merged.

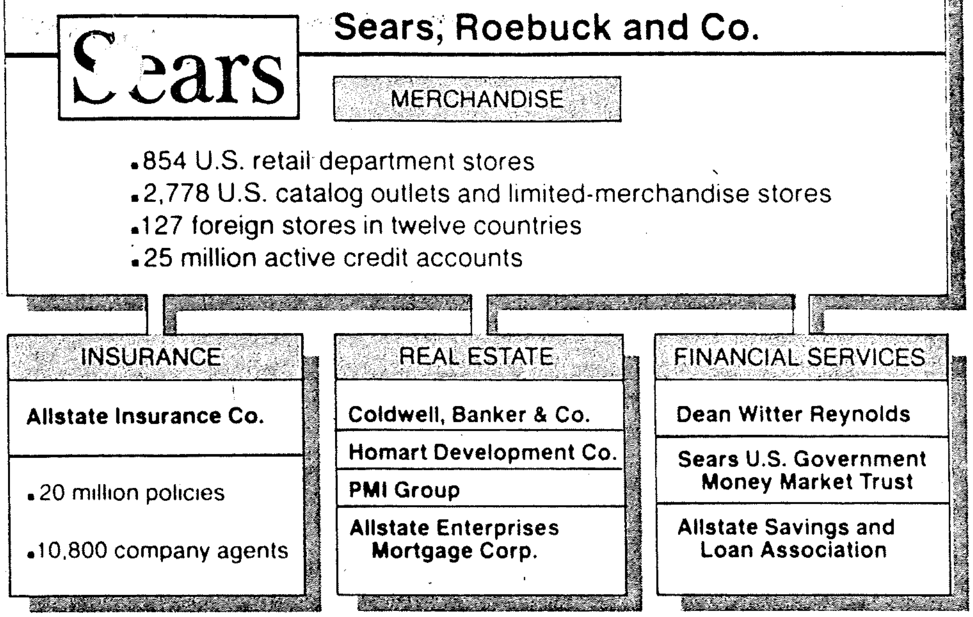
cum

THE WALL STREET JOURNAL

"I would like to order a pair of overalls and 10 shares of AT&T!"

Attachment 5

House C&FI Comm 2/24/83



Marta Norman, Claire A. Nivola—NEWSWEEK

One-stop shopping: Everything from toasters and real estate to stocks and bonds

Where America Will Bank

Once "Sears was 'Where America shops'," Citicorp observed in a recent pamphlet. "Today, Sears is where America banks." Eventually Sears, Roebuck and Co. may be where America does almost everything. Last week, in a mammoth shopping trip of its own, the world's No. 1 retailing behemoth announced that it would buy the nation's largest real-estate broker, Coldwell, Banker & Co., and the fifth largest securities firm, Dean Witter Reynolds, in transactions worth a total of about $800 million. The bids hastened the company's transformation into a financial giant that "will bring a new dimension of service to the 36 million families who are regular Sears customers," Sears chairman Edward Telling declared. "We can together achieve our goal of becoming the premier provider of financial services in the country."

It is a goal Sears has held for some time—and last week's moves toward its culmination foretold further shake-ups in an industry in revolution. This year alone the nation's largest charge-card, insurance, private-construction and commodities-trading companies have bought controlling stakes in major securities firms—creating new titans like Shearson/American Express, the Bache Group unit of Prudential Insurance, the Bechtel-backed Dillon Read and Phibro Corp.'s Salomon Brothers subsidiary. The giants aim to tap new markets with a broad array of services—and Sears will give them fierce competition. In the future, Sears customers will be able to buy a house, get a mortgage, furnish the house, insure it and their own lives, invest idle funds in a high-yield, low-risk money-market fund and speculate in securities—the ultimate in one-stop shopping.

Sears's new thrust into financial services is hardly a surprise. Through its Allstate subsidiary, launched in 1931, it already had a foothold in insurance, and over the years, it has acquired a number of savings and loan institutions. It has long planned to issue its own short-term debt. And just last month it announced that it would set up a money-market fund, which will invest in Treasury bills, notes and other U.S. Government instruments with less than one-year maturities, pending Securities and Exchange Commission approval. When it negotiated a $2 billion credit agreement with a consortium of banks in September, analysts assumed that the company was on the brink of making an offer for a financial-services firm.

Stock Boy: The man who made the transformation possible is Edward Telling. Sears's chief, who joined the company as a stock boy in 1946, rose through the ranks of middle management. Although his appointment as chairman in 1978 came as something of a surprise, his long years of experience at the retail level came in handy. Telling was convinced, for instance, that the company's attempt during the early 1970s to develop an upscale, high-fashion market was a serious mistake, and he moved quickly to restore Sears's image as Middle America's shopping mall.

Telling also trimmed a bloated layer of middle management, inducing nearly 1,500 employees to take early retirement and improving productivity. Though the retailing arm isn't entirely out of the woods, analysts expect business to revive with the economy and say the streamlined Sears is fully capable of digesting its new lines of business. "If you were talking about the old Sears, it would've

John Landschulz of Chicago's Mesirow & Co. "But you're talking about new management, and I think they can handle it

Sears will group its latest acquisitions in its growing real estate and financial services divisions (diagram). Dean Witter itself will be run as an independent subsidiary with access to the massive $15 billion capital resources of its new parent. Its Sears connection should help its drive to add more investment banking, underwriting and institutional clients to its longstanding retail accounts. Even more important, Witter could gain millions of new well-heeled customers. Of the holders of Sears's 24 million active credit-card accounts, fewer than 9 percent currently have brokerage accounts—yet they are estimated to hold two-thirds of the passbook-savings dollars in the country. "Before you know it, we'll be selling securities through the Sears catalogue," mused one Dean Witter broker last week.

The new Sears will pose a stiff challenge to competitors. With Coldwell, Banker, for instance, it will compete head-on with Merrill Lynch, which has sunk millions of dollars into a so far unprofitable attempt to set up a nationwide residential real-estate firm. Sears thinks its own credit services will be much more appealing to middle-income customers than those offered by the mighty new Shearson/American Express. The expanded Sears will make the remaining independent brokers more vulnerable than ever to takeover. E.F. Hutton is widely expected to become an acquisition target soon—perhaps to shareholder Transamerica Corp.—and smaller regional brokers may ultimately find it necessary to merge in order to survive.

Joining the Fun: But the biggest shock waves may be felt outside the brokerage business. Since Sears will engage in both banking and brokerage—and three out of every four adults shop at Sears at least once a year—it will pose an enormous threat to the nation's banks, which are currently barred by law from participating in most securities business. They seem certain to object loudly to Sears's new powers—and to bring new pressure on Congress to amend the Federal banking laws that set the distinctions between the services banks and brokers can provide. According to Citicorp chairman Walter Wriston, the Sears bids prove that "the marketplace is simply breaking down government policy. We certainly don't want to see Sears controlled—just let us join the fun."

It is unlikely that the legal obstacles to the banks would be toppled anytime soon—and that could give Sears a substantial head start in its new lines of business. Even without the jump, Sears may have an unbeatable competitive advantage: a comforting reputation for stability and old-fashioned quality that could prove as tempting to prospective investors as Mom's fresh-baked apple pie. "People trust Sears," says money-market analyst William Donoghue. When it comes to investing in the future, the company that grew up with America may seem to its new customers to be a better-than-even bet.

SUSAN DENTZER with FRANK MAIER in Chicago and FRANK GIBNEY JR. in New York

AREAS FOR POSSIBLE AMENDMENT

H.B. 2001

1. Definitions - required to convert from prohibition of multi-bank holding companies to regulation.

2. Limitations

   (a) percentage of total bank deposits in the state;

   (b) no de novo charters; no acquisition of a bank not in existence for five years; and

   (c) prohibit out-of-state multi-bank holding companies, but grandfather existing out-of-state interests.

3. Other Possibilities

   (a) role of the State Bank Commissioner;

   (b) penalties; and

   (c) emergency situations.

Attachment 6
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