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MEMORANDUM

TO: SENATE COMMITTEE ON COMMERCE AND LABOR

FROM: DONAL HUMMER, JR., VICE-PRESIDENT AND GENERAL COUNSEL, HARLEY-DAVIDSON FINANACIAL SERVICES, INC.

SUBJECT: AB 389 (2003 SESSION)

RE: **THRIFTS ARE REGULATED THE SAME AS BANKS**

DATE: MAY 4, 2003

During discussions this week on AB 389, some members have expressed concern that account holders and consumers face significant risks if non-banking companies can continue to own banks, savings & loans, or thrifts. Specifically, some fear that the parent company could simply siphon funds from the bank to support the parent company's faltering operations, thereby depleting the bank's capital to dangerously low levels. We believe these fears are unfounded because thrifts are scrutinized under all the same regulations and regulators as are state and federal banks.

To begin, no reasonably run bank or thrift would engage in such tactics. In any event, the banking industry is closely scrutinized. It is examined more frequently and carefully by federal and state regulators than almost any other industry. A long list of regulations and laws govern the financial well being of banks and thrifts, and restrict their ability to funnel capital to a parent company. This memorandum will summarize many key regulations and laws on this topic. In light of the highly regulated environment in which banks and thrifts operate, there is no realistic chance that the fears expressed by some would actually come true.

Regulation W Restricts Transactions Between a Bank and Affiliated Entities.

Federal Reserve Regulation W is a complex series of regulations affecting almost any bank or thrift. These regulations apply to any national bank, state bank, banking association, or trust company that is a member of the Federal Reserve System. Regulation W also applies to all FDIC-Insured state non-member banks, thrifts and FDIC-insured savings associations ("bank"). The following summary of Regulation W is not an exhaustive analysis, but is simply intended to show that federal regulations severely restrict a bank's ability to divert funds to its parent company, or to any other related entity. Regulation W went into effect on April 1, 2003.

Regulation W restricts certain transactions between a bank and its affiliated companies. (*See*, 12 C.F.R. §§223.1 through 223.71). "Affiliated companies" or