

## ***Banks and Real Estate***

### **The Issue**

Banks have asked the government to define real estate brokerage and management as financial activities, rather than commercial ones.

In addition, using another tactic to get into real estate, the Office of the Comptroller of the Currency (OCC) has expanded the authority of banks to develop real estate. In December 2005, OCC issued rulings involving three large national banks (Union Bank of California, PNC Bank, and Bank of America) that permit bank ownership of hotels, residential condominiums, and even a windmill farm.

Both these approaches violate the long-standing national policy against mixing banking and commerce. This policy is necessary to avoid the unfair advantage banks would have because they enjoy access to cheap sources of capital due to federal deposit insurance and other subsidies unique to banks. In addition, permitting banks to engage in commercial activities creates an inherent conflict of interest. Banks should be “honest brokers” in providing financial services and not be influenced in deciding whether to make a loan because the applicant is also a commercial competitor.

### **What This Means for You**

If big banks are allowed to sell or manage real estate, there will be a negative impact on communities across America, leaving home buyers and sellers with fewer choices, higher loan fees and reduced customer service, from agents who don't follow NAR's strict code of ethics.

The precedent set by the OCC's actions in December expands the authority of banks to develop real estate far beyond what is needed to accommodate their business. Purely commercial real estate developers are at a disadvantage when competing for projects with federally-subsidized banks.

The collapse of the savings and loan industry in the 1980s, which affected the housing market for years, was the result of government policies allowing the mixing of banking and commerce. In addition, a similar intertwining of banking and commerce has kept Japan's economy in the doldrums for more than a decade. Another banking crisis would mean REALTORS® and all other taxpayers will be forced to bail out the banks.

### **Where it Stands Now**

NAR wants to make sure that banks aren't allowed to slowly, but surely, chip away at the real estate industry. That's why NAR is educating Congress about the OCC's recent decisions, which NAR President Tom Stevens outlined in a letter to members. NAR is also urging Congress to conduct hearings.

In addition, President Stevens has written letters to Ben Bernanke, the new chairman of the Federal Reserve Board of Governors, and to John Snow, Secretary of the Treasury, urging them to keep banking and commerce separate as a fundamental economic policy. He has also written to Comptroller John Dugan asking him to reconsider the rulings that allow the banks to proceed with the recent real estate projects.

NAR has also made a Freedom of Information Act request to determine whether the OCC has allowed any other banks to develop real estate.

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