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The National Association of REALTORS® is concerned that banks expanding into real estate brokerage and management could increase risk to the deposit insurance fund. We all know that firewalls work well in good times, but they tend to come tumbling down in financial downturns.

Regulators and bankers argue that because banks would only be performing agency functions and not actually investing in real estate, there is no risk to the fund. That is a short and easy response that fails to look at the realities of the situation that would be created by expansion into commercial activities like real estate brokerage.

If banks are allowed to perform real estate brokerage, there are several scenarios that should give policymakers reason for thought. Bank controlled real estate brokers may attempt to steer consumers to the bank or the bank affiliated mortgage company for mortgage loans. Even if tying were specifically prohibited by any proposed regulation, the coercive nature of a bank suggestion would, in effect, point consumers to their products.

In addition, if history is any predictor, banks may offer loans on an increasingly risky basis in order to capture fees on the brokerage operation. During the nineteen eighties lenders made risky loans in order to get fees of three to four percent. By chasing this alternative revenue source, banks could make ever more questionable loan decisions. These loans may have to be held in house due to their failure to meet secondary market requirements. Instead of diversifying risks to the financial institution, such a system may instead concentrate that risk and place an increased burden on the deposit insurance fund.

The example of the recent failure of Superior Bank in Illinois is informative. They specialized in sub prime lending. Would the attraction of real estate fees cause banks to become more relaxed in their lending standards, or extend subprime practices to the home purchase money mortgage market?

Bankers have argued they seek nothing more than what exists today in the real estate industry. They say that affiliated mortgage lenders partner with REALTORS® to offer "one stop shopping." What they don't say is that they already offer this too. The largest banks own mortgage companies or joint ventures with real estate firms, as did Wells Fargo and Long and Foster to form Prosperity Mortgage.

Real estate firms affiliated with mortgage lenders do not have the protection of the federal government and the deposit insurance fund. The risks undertaken are based on good business judgment and private capital. We have seen the federal safety net come to the rescue of failed banking institutions when they have undertaken new ventures. Expansion into a commercial activity such as real estate brokerage and management will increase risks to the insurance fund. This potential risk should be examined very closely by your committee before allowing any proposed expansion to take place.