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**Issue Area:** Conventional Residential Lending  
**Date of Action:** 09/02/97  
**Document Title:** To House Commerce Committee Regarding Financial Services Reform Bill, H.R. 10, "Financial Services Competitiveness Act", September 2, 1997

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September 2, 1997

The Honorable Tom Bliley, Jr.  
2409 Rayburn House Office Building  
Washington, DC 20515

Dear Representative Bliley:

When Congress returns in September, the House Commerce Subcommittee on Finance and Hazardous Materials is expected to resume its work on H.R. 10, the Financial Services Competitiveness Act of 1997." The NATIONAL ASSOCIATION OF REALTORS® representing nearly 720,000 real estate professionals, has serious concerns about H.R. 10 in its current form, especially those portions of the bill that mix banking and commerce.

The House Banking Committee narrowly reported H.R. 10 by a vote of 28 to 26. The closeness of the vote to report was a bipartisan expression of opposition to the bill's formula for integrating banking and commerce. A narrow financial services bill became a vehicle for fundamentally altering the national banking and commerce landscape. H.R. 10, as passed by the House Banking Committee, locks in parameters that could adversely alter the development of financial market structures. If Congress dramatically changes the rules regarding banking and commerce, when there is so much uncertainty about future synergy between financial and nonfinancial businesses, the NATIONAL ASSOCIATION OF REALTORS® fears the results may be irreparable damage to the safety and soundness of the banking system.

The "basket" and "reverse basket" approaches for mixing commerce and banking are of specific concern to REALTORS®, as outlined in Title I of H.R. 10. Title I permits both banks and nonfinancial corporations each to originate up to 15 percent of their revenue from the other's activities. While there is some limit on the original size of each nonfinancial firm acquired by a bank holding company and on the original size of the one bank that a nonfinancial company could purchase, the subsequent growth is only constrained by the 15 percent revenue limit. In actuality, these limits are "floors" not "ceilings". The results would be unlimited expansion of cross affiliations between banks and commercial firms, without being subject to regulation by the Federal Reserve Board or other relevant regulators.



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In the name of "level playing fields", "competitiveness abroad and at home", and similar rhetoric used to justify the expansion of thrift investment powers and bank competitiveness earlier this decade, the nation suffered through the thrift debacle and a banking crisis that propelled a fundamental realignment in providers of credit and funding for commercial activities.

The provisions in H.R.10 go well beyond what both commercial banks and nonfinancial firms need to meet today's and future business competitiveness requirements. Portions of the bill mixing banking and commerce should be struck. Left in place, it may be impossible to repair the damage that could result should H.R 10 become law. As banks grow, their commercial activities will grow proportionately, thus spreading the safety net subsidy over a much wider range of activities, which will consequently undermine the safety and soundness of insured banks.

I urge you to remove those provisions in Title I and Title II of H.R 10 that would establish the basket formula for mixing banking and commerce.

Sincerely,

/S/

Russell K. Booth