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430 North Michigan Avenue
Chicago, Illinois 60611-4087
312.329.8411 Fax 312.329.5962
Visit us at *www.REALTOR.org.*

NRT, Inc.
465 Maple Avenue West, Suite B
Vienna, Virginia 22180-3441
703/268-2001 Fax 703/356-3441
E-mail: tstevens@cbmove.com

Thomas M. Stevens, CRB, CRS, GRI
President

February 23, 2006

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Dear Mr. Chairman:

On behalf of more than 1.2 million members of the National Association of REALTORS® (NAR), I am writing to express our opposition to the application filed by Wal-Mart Stores, Inc. (Wal-Mart) for federal deposit insurance for its industrial loan company (ILC) to be chartered by Utah. Approval of the application would set a serious precedent and lead to the erosion of the national policy against mixing banking and commerce. In your January 19, 2006, letter to Representative Paul E. Gillmor, you advised him that you anticipated that the FDIC Board of Directors would not make a final determination on this matter without first holding a hearing. Accordingly, I am also writing to request an opportunity to testify at any hearing the FDIC conducts on this matter.

The National Association of REALTORS®, "The Voice for Real Estate," is America's largest trade association, including NAR's five commercial real estate affiliates. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,500 local associations or boards, and 54 state and territory associations of REALTORS®.

NAR is deeply concerned about the pending application for federal deposit insurance for Wal-Mart's ILC. This marks the latest chapter in Wal-Mart's continuing effort to gain a foothold entry into the banking industry and would be inconsistent with the national policy against mixing banking and commerce. We hope you share our concern about the risks of permitting Wal-Mart to control a bank, even one whose powers are limited. When commercial firms are allowed to engage in banking, the bank functions under an inherent and irreconcilable conflict of interest. The bank's commercial parent will undoubtedly use the bank in a manner that furthers the corporate objectives of the company, which may be at odds with what is in the best interests of the bank subsidiary, customers, competitors, and our financial system. Banks must be "honest brokers" of financial services and must not be swayed into making credit and other business decisions based on their affiliation with commercial firms. Moreover, a commercial company that controls a bank has an unfair advantage due to federal subsidies, such as access to cheap capital and funding as a result of the existence of the federal deposit insurance safety net. In addition, banks are the only entities that have access to the Federal Reserve's discount window and payment system. These advantages create an unlevel playing field when banks compete with commercial firms. Permitting Wal-Mart to control a federally-insured ILC will enable Wal-Mart to spread the risk of the company's commercial operations to other participants in the payments system.

Furthermore, we strongly believe that Wal-Mart's effort to obtain a federally-insured ILC, if successful, will establish a dangerous precedent that will inevitably lead to an erosion of the separation of banking and commerce and have serious consequences for the continued stability and growth of the nation's financial system. Our testimony will expand upon our reasons why the Board should not approve Wal-Mart's insurance application.

Numerous banking organizations, bank trade associations, and consumer groups are already on record with the FDIC as strenuously opposing the Wal-Mart ILC application on the basis that permitting commercial firms to own banks will result in an impermissible mixing of banking and commerce. NAR agrees with those who oppose the Wal-Mart application. While we agree with the arguments made by the banking industry, we wish to point out that the banking community is taking inconsistent positions by opposing the Wal-Mart application while at the same time seeking to expand permissible bank activities into real estate brokerage and real estate development—activities which by their very nature are commercial.

In 2001, for example, the Federal Reserve Board and the Department of the Treasury published a proposed rule that would permit financial holding companies and financial subsidiaries of national banks to engage in real estate management and brokerage. At NAR's urging, Congress has blocked this rule ever since, one year at a time. More recently, the Office of the Comptroller of the Currency (OCC) has issued several rulings that, in our view, go beyond statutory authority banks have to own real estate to accommodate their businesses. We think that permitting banks to develop luxury hotels and develop residential condominiums for immediate sale in order to make the remainder of a project economically feasible stretches the law to the breaking point. Another OCC opinion permits a bank to take a 70 percent equity stake in a windmill farm. We think that permitting such an investment (which the OCC views as the functional equivalent of a loan) in a highly volatile corner of the energy industry is inappropriately risky—regardless of the structure of the deal. The irreconcilable clash of commercial and banking industries over these activity issues in different regulatory forums should compel the relevant government agencies to defer to Congress to resolve these issues through the legislative process. I ask that you add your voice to those who are concerned about administrative actions that erode the barriers separating banking and commerce.

Our staffs have already discussed NAR's interest in testifying, and I look forward to the opportunity.

Sincerely yours,

Thomas M. Stevens, CRB, CRS, GRI
2006 President, National Association of REALTORS®

cc: Members of the FDIC Board:
The Honorable Thomas J. Curry
The Honorable John C. Dugan, Comptroller of the Currency
The Honorable John M. Reich, Director, Office of Thrift Supervision