OPENING STATEMENT OF
CONGRESSMAN PAUL E. KANJORSKI
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT

HEARING ON THE PROPOSED RULE ON
REAL ESTATE MANAGEMENT AND BROKERAGE SERVICES
ISSUED BY THE FEDERAL RESERVE BOARD AND
THE DEPARTMENT OF THE TREASURY

WEDNESDAY, MAY 2, 2001

Mr. Chairman, as part of the 1999 law to overhaul and modernize our nation's financial services industry, we created a framework that prohibits the mixing of banking and commerce, but which permits financial institutions to engage concurrently in banking, insurance, and securities activities. During our lengthy considerations of this groundbreaking law, I strongly supported maintaining the firewalls separating the financial and commercial sectors.

To underscore our concerns about the integration of banking and commerce activities, Congress in the 1999 law also specifically banned financial institutions from entering real estate development and investment services. Although real estate management and brokerage also represent non-financial, commercial activities, in one of their first acts of interpreting the Gramm-Leach-Bliley Act, the Federal Reserve Board and the Treasury Department unfortunately issued a proposed rule that would allow national bank holding companies and their subsidiaries to engage in these pursuits.

Upon learning about the proposed rule, I joined with the Chairman of our Subcommittee in sending a letter to Federal Reserve Board Chairman Greenspan and Treasury Secretary O'Neill to express my deep concerns. As I understand, at least 33 other Members of our Subcommittee subsequently either signed onto the Bachus-Kanjorski correspondence or sent their own letters to the regulators on the rulemaking proceeding. In other words, about three-quarters of the Members of our Subcommittee have already expressed doubts about this regulatory initiative. To their credit, the Federal Reserve and Treasury Department responded to these congressional inquiries by prolonging the comment period from the start of March until the beginning of May.

Today's hearing will help better the regulators' understanding our specific concerns as they work to evaluate the more than 40,000 comments they received on the real estate management and brokerage rule, and to appropriately revise -- or perhaps even withdraw -- the proposal. If the agencies fail to deliberate on this issue judiciously, Congress may find itself again considering legislation designed to close the loopholes created by their regulatory excess. It is therefore my sincere hope that the agencies' experts will take a long, hard, and serious look at the comments they received and listen carefully to their congressional critics as they work to modify and modulate their preliminary approach to this issue.

Finally, Mr. Chairman, in addition to examining the proposal's effects on banking and commerce, I would encourage the regulators to also examine the rulemaking's social ramifications. Creating bigger institutions will not necessarily result in better services and better communities. Even if this proposal could in the short run initially result in saving consumers a few basis points, it would in the long run decrease competition and stifle the important community leadership provided by our nation's realtors. Our regulators should therefore move forward cautiously in this area in the upcoming months.