Written Statement

of

Stephen Baird
President and CEO
Baird & Warner, Inc.

On Behalf of

The Realty Alliance

Before the
U.S. House of Representatives
Subcommittee on Financial Institutions and Consumer Credit
of the
Committee on Financial Services

On

H.R. 3424, The Community Choice in Real Estate Act

July 24, 2002

Good morning, Mr. Chairman and members of the Subcommittee. My name is Stephen Baird, and I am President and CEO of Baird and Warner, Inc.

Baird & Warner has 35 real estate brokerage offices throughout the Chicago metropolitan area. Our 2001 residential sales volume of $4.2 billion ranks us as the 12th largest residential brokerage company in the United States. Baird & Warner Financial Services is a wholly owned subsidiary providing mortgage services to our clients. We represent 20 lenders and originated $700 million in mortgages in 2001. The company employs approximately 250 employees and 1320 independent contractor agents. As a five-generation family business, we are the oldest real estate company in the United States, dating back to 1855. Baird & Warner has been a member of NAR since its inception.

I am currently on the Board of Directors of the Realty Alliance. The Realty Alliance consists of 45 of the largest independently owned and operated real estate companies in America. I am speaking of their behalf.

Over the last 10-15 years, the members of The Realty Alliance have diversified their business around a one-stop shopping model. They no longer consist of just residential real estate brokerage, but have added such services as mortgage, title, insurance and home services.

With NAR's escalating opposition to banks entering the real estate business, our members have grown increasingly concerned that NAR's position and vehemence would have a negative impact on consumers, our companies and the industry as a whole.

This could not only significantly affect the operations of our members, but it would prevent us from offering the one-stop shopping programs that our customers both want and value, according to a March 2002 consumer survey conducted by Harris Interactive and sponsored by The Realty Alliance and RESPRO.

Because of this concern, The Realty Alliance began to seriously debate the pros and cons of nationally chartered banks entering the real estate brokerage and related businesses. At the end of this debate, The Realty Alliance voted to support the Fed-Treasury proposed rule, by a vote of 41 to 4.

The following is a brief summary of why the vast majority of Realty Alliance members eventually concluded that nationally chartered banks should be allowed to enter our business.

Open Competition is the American Way

As the real estate industry has changed, real estate brokerage companies have looked to diversify and enter new businesses such as mortgage, title, and insurance. Just as we should be able to compete in these businesses, so should any other industry be able to enter and compete with us. Open competition is the American way. Today, more than at any time in history, it should be apparent that open, free markets are superior to closed, controlled, or regulated markets. Real estate brokerage should be treated no differently that any other industry.

There are certain areas of our business that could use a greater level of competition. Nationally-chartered banks could provide competition against other large entities entering the real estate brokerage business, such as Cendant, Prudential, and GMAC. This would certainly benefit the industry as a whole, since today these companies have little true competition.

Capital is Good for Our Business

Residential real estate has always been a capital-short industry, and we should encourage efforts to bring more capital to our business. We have struggled for many years to find enough capital to expand our businesses, to innovate, and to do research and development. Many of us have been faced with the inability to raise capital or borrow money to finance new programs. With an open market, capital would most certainly be more available.

Furthermore, capital provides liquidity for real estate brokerage firms of all sizes who are interested in selling their businesses in order to compete against large, significant players such as Prudential, GMAC, and Cendant.

Capital can enter our business in many ways. The ability to joint venture or create partnerships to grow our businesses or expand into new businesses has been a successful strategy for many real estate companies. By having new capital and resources available, combined with our entrepreneurial abilities, the future possibilities are endless. In other industries, such as insurance and securities, banks have typically partnered with existing companies more often than employing any other strategy.

Competition Will Make Us Better

Competition makes us all better. The argument that banks would be "anti-consumer" makes no sense. How could real estate brokerage be less competitive and anti-consumer if there are more companies offering new and different services?

Even though they work hard at relationship management, banks are not known for their customer service. When they entered the insurance business, their performance lagged significantly behind existing insurance brokerages. The negative reaction to raising ATM fees in California and in other states is another example. Real estate brokerage firms would be able to more effectively compete against a large financial institution than an entrepreneurial real estate brokerage firm in their marketplace that is smart, aggressive and competitive. And if the banks improve their customer service, it raises the bar for all of us.

It Will Affect the Prospects for RESPA Reform

Most importantly, our industry will be facing RESPA reform in the near future. RESPA reform will have a significant impact on how we practice our business and on our ability to build and grow our companies. How can we go to Washington and ask for the things that we feel are appropriate in RESPA reform and at the same time proclaim that banks and financial institutions cannot be allowed in our business? Not only would our credibility be questioned, but also our ability to lobby on future issues would be significantly compromised.

We feel it would be hypocritical to work toward RESPA reform by building a model for one-stop shopping while prohibiting certain financial entities from participating in that solution. One-stop shopping could and should be offered and available to everyone.

We Should Welcome New Players

Our industry has succeeded for many years by maintaining an open, competitive marketplace where all players can compete on an even footing, and we should welcome new entrants whomever they may be. When we erect regulatory boundaries or prohibit others from joining our business, it hurts us in the long run. Over the years, many companies including Sears, Merrill Lynch and Metropolitan Life have come into our industry with new ideas and new ways of doing things. Meanwhile, we have changed, grown and prospered. The challenges only make us stronger and better

Banks Will Continue to Be Able to Enter the Real Estate Business Anyway

In the long term, it is highly unlikely that banks will not continue to be in the real estate business. Currently, over 25 states permit their state chartered banks to engage in real estate brokerage either directly or through a subsidiary. Also, federal savings associations are authorized through service corporation subsidiaries to engage in real estate brokerage activities. This would mean that federal savings associations such as Washington Mutual, for example, could get into the real estate business today.

We already compete with large financial players such as Cendant, Prudential, and GMAC, and we see no difference between them and a large bank or a federal savings bank.

Mr. Chairman, the National Association of Realtors® does not speak for the vast majority of Realty Alliance members on this issue. We hope that you and members of the Subcommittee will consider our views on this issue as you consider this legislation.

Thank you for the opportunity to testify, and I would be glad to answer any questions.