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M E M O R A N D U M

January 4, 2001

TO: Our Clients and Friends

RE: Proposed Real Estate Brokerage and Management Activities

Summary

The Federal Reserve Board (the “Board”) and the Secretary of the Treasury (the “Secretary”) have proposed to permit financial holding companies and financial subsidiaries of national banks to engage in real estate brokerage and real estate management activities.

Background

The Bank Holding Company Act (the “BHC Act”), as amended by the Gramm-Leach-Bliley Act (the “GLB Act”), permits financial holding companies (“FHCs”) to engage in financial activities or activities that are incidental to financial activities. The Board, in consultation with the Secretary, may determine by regulation or order which activities are financial in nature or incidental to financial activities.

The GLB Act also amended the National Bank Act to permit national banks to invest in financial subsidiaries. Financial subsidiaries also may engage, with certain exceptions, in financial activities that are permissible for FHCs. The Secretary, in consultation with the Board, may determine which activities are financial in nature or incidental to financial activities, and therefore permissible for financial subsidiaries of national banks.

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Proposed Real Estate Brokerage and Management Services

The proposal would authorize FHCs and financial subsidiaries to provide real estate brokerage services. Among the activities that would be permitted are:

- acting as agent for a party to a real estate transaction;
- listing and advertising real estate;
- providing advice in connection with a real estate transaction;
- bringing together parties interested in consummating a real estate transaction; and
- negotiating on behalf of parties a contract relating to a real estate transaction.

The proposal would also authorize FHCs and financial subsidiaries to provide real estate management services. These include:

- procuring tenants;
- negotiating leases;
- maintaining security deposits;
- billing and collecting rent payments;
- providing periodic accountings for such payments;
- making principal, interest, insurance, tax, and utilities payments; and
- generally overseeing the inspection, maintenance, and upkeep of real property.

Real estate management and real estate brokerage generally would not include purchasing, selling, or owning real estate as principal.

Importantly, the proposal contains restrictions to ensure that a FHC or financial subsidiary, when acting as a real estate broker or manager, serves only as an intermediary between buyers and sellers (or lessees and lessors) and does not otherwise become impermissibly involved in the underlying real estate transaction. In particular, a FHC or financial subsidiary could not (i) invest in or develop real estate; or (ii) take title to, acquire, or hold an ownership interest in any real estate that is the subject of the company's real estate brokerage services. Further, while a FHC or financial subsidiary could not directly repair or maintain the managed real estate, it could arrange for a third party to provide these services.

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The Board and the Secretary also seek comment on whether to permit FHCs or financial subsidiaries:

- to provide employee relocation services;
- to purchase residential real estate in connection with providing employee relocation services; and
- to assist transferred employees to move household goods and to assist spouses of transferred employees to find employment in connection with providing employee relocation services.

The full text of the proposal can be found at:
<http://www.federalreserve.gov/BoardDocs/Press/BoardActs/2000/20001227/DEFAULT.HTM>.

Comments on the proposal are due by March 2, 2001.

If you have any questions regarding this proposed rule, please call Tom Fox, Gil Schwartz, Bob Ballen or Brandon Dell'Aglio.