Testimony Prepared for
Public Hearing on Proposed Merger of Fleet and BankBoston

at the

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by

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My name is Jim Campen and I am an Associate Professor of Economics at the University of Massachusetts Boston. Last year I completed a two-year term as a member of the Boston Fed's Community Development Advisory Council. I will focus my comments today on the issue of mortgage lending to traditionally underserved borrowers, an issue on which I have completed several studies in recent years.

1. My June report. In early June I released a report entitled "Does One Plus One Equal More Than Two? – Or Less Than One? A Study of Mortgage Lending Before and After Recent Mergers by Fleet and BankBoston." (A copy is attached; it has previously been entered into the record for this application.) The main finding of this study was that – both in the city of Boston and in all of Massachusetts – lending to black, Latino, and low- and moderate-income (LMI) borrowers by Fleet in 1998 was approximately half of the total lending to these borrowers by Fleet and Shawmut combined in 1995. That is, the result of this most recent Fleet merger was "1 + 1 = 1." In contrast, I found that lending to these borrowers by BankBoston in 1998 was approximately equal to the total lending to these borrowers by Bank of Boston and BayBanks combined in 1995. That is, the result of the most recent BankBoston merger was "1 + 1 = 2." Fleet's performance, but not that of BankBoston, fell far short of meeting the criteria of "1 + 1 > 2" that was emphasized by CEO's Murray and Gifford at their joint March 15 press conference.

My findings may be illustrated by one example (from Panel D of Table 1). LMI borrowers purchasing homes in the city of Boston in 1995 received 274 loans from Fleet and 400 loans from Shawmut, for a total of 674 loans. In 1998, Fleet made 335 loans, for a decrease of almost exactly half (the percentage decrease of 50.3% is reported in the right hand column). The same borrowers received almost as many loans from BankBoston in 1998 as from Bank of Boston and BayBanks combined three years earlier (the total fell from 269 loans to 255, a decrease of 5.2%). This particular finding is chosen as representative, not extreme; the same general pattern exists whether one looks at Boston or the entire state; at loans to blacks, to Latinos, or to LMI borrowers; at starting dates of 1994 or 1995 or ending dates of 1997 or 1998. And the findings reported for New York, New Jersey, New Hampshire, and Connecticut in Table 3 are even stronger than those for Boston in Table 1 and Massachusetts in Table 2.

2. Fleet's response. Fleet's principal response to my findings was stated in a June 29 letter from William Mutterperl to the Boston Fed's CRA Officer, Richard Walker. Mr. Mutterperl points out that Fleet has ranked first in market share of lending to black, Latino, and LMI borrowers and that the percentage of its total loans that go to these borrowers is substantially above the industry average. This, of course, is not a refutation of my findings. Rather, Mr. Mutterperl has, perhaps unwittingly, underlined exactly why the substantial drop in Fleet's mortgage lending to these borrowers following its merger with Shawmut is so

significant. It is precisely because Fleet and Shawmut had such strong performance in lending to traditionally underserved borrowers that their decline matters so much.

When a major lender cuts back its lending to middle- and upper-income households there is no reason for public policy concern, because there are plenty of other lenders aggressively seeking to lend to these borrowers. But when the largest lender to traditionally underserved borrowers cuts back substantially, there *is* a shortage of other lenders who will step in and take up the slack. Thus, even though Fleet's cutback in lending to minority and LMI borrowers was approximately proportional its cutback in overall lending, while total lending (by all lenders) to all borrowers rose by 29% between 1995 and 1997, total lending (by all lenders) to black and Latino borrowers fell by 1% during the same period.

When the two largest lenders to minority and LMI borrowers merge, it is possible for the subsequent lending of the surviving institution to fall to the level of the merger partner with the lower level of lending (that is, to fall by more than 50%, so that "1+1<1), while that surviving institution retains the positions of the largest single lender to blacks, Latinos, and LMI borrowers. Indeed, Fleet and Shawmut were by far the largest such lenders in 1995, and Fleet remains, as Mr. Mutterperl says, the largest lender.

At this time, Fleet and BankBoston are the two largest lenders to minority and LMI borrowers. I doubt that Mr. Mutterperl means to suggest that it would be all right if the lending to these borrowers by the institution resulting from the proposed merger were to fall by 50% – as long as that institution retained a number one market share and continued to make a high percentage of its loans to these borrowers.

3. New results for six Massachusetts MSAs. I have attached to the written version of my testimony six newly completed tables that replicate for six Massachusetts metropolitan areas (MSAs) the analysis previously done for the City of Boston and the state of Massachusetts. These tables, numbered Tables 4 – 9 so as to not duplicate the table numbers from my June report, present new results for the three biggest MSAs in the state – Boston, Worcester, and Springfield – as well as for the three MSAs in the southeastern part of the state.) I particularly call your attention to the tables for Springfield (Table 5) and New Bedford (Table 7).

In Springfield, the state's second most populous MSA, between 1995 and 1998 Fleet's home-purchase loans to blacks fell from 46 loans to just 2, to Latinos from 99 loans to just 10, and to LMI borrowers from 226 loans to just 38. (The corresponding percentage declines, shown in the right-hand column were 95.7%, 89.9%, and 83.2%, respectively.) Meanwhile BankBoston's lending to blacks and Latinos combined, as well as their lending to LMI borrowers, increased.

In New Bedford, the state's poorest MSA, (Table 7) total lending by both Fleet and BankBoston dropped precipitously. Total loans to blacks and Latinos by the two banks combined fell from 23 loans to 3, while total lending to LMI borrowers by the two banks combined fell from 127 loans to just 11. These dramatic numbers seem to me to offer grounds for serious concern, although I calculated them too recently to have had an opportunity to pursue any explanation of why lending in that city by these two banks fell so far and so fast.

4. The impact of branch/deposit divestitures on the "1 + 1 > 2" criteria. Fleet and BankBoston have suggested that the criterion of "1 + 1 > 2" should be modified to take into account the fact that the post-merger, post-divestiture institution will be only about 80% as large as the combined size of the two current banks – that is, that the appropriate criterion should be "1 + 1 > 1.6."

However, there is no guarantee that a bank acquiring divested branches will in fact engage in mortgage lending that will make up for a drop in lending by the divesting institution. I am aware of two cases in the last round of mergers where a substantial number of branches and deposits in a single MSA were divested to a single institution.

Table 8
MORTGAGE LOANS FOR HOME PURCHASES IN THE MASSACHUSETTS PART OF THE PROVIDENCE, FALL RIVER, WARWICK MSA*
Before and After Recent Mergers by BankBoston and Fleet, 1994 - 1998

Lender	1994	1995	1996	1997	1998	% change 1995 to 1998
A. Total Loans						
BankBoston	35	49	53	34	46	
BayBanks	48	47	31	0	0	
SubTotal	83	96	84	34	46	-52.1%
Fleet	114	157	179	77	94	
Shawmut	137	102	4	0	0	
SubTotal	251	259	183	77	94	-63.7%
B. Loans to Black Borrowers						
BankBoston	1	0	1	0	0	
BayBanks	0	1	0	0	0	
SubTotal	1	1	1	0	0	-100.0%
Fleet	1	2	3	2	1	
Shawmut	0	0	0	0	0	
SubTotal	1	2	3	2	1	-50.0%
C. Loans to Latino Borrowers						
BankBoston	0	0	0	0	1	
BayBanks	1	1	0	0	0	
SubTotal	1	1	0	0	1	0.0%
Fleet	5	2	3	1	0	
Shawmut	2	3	0	0	0	
SubTotal	7	5	3	1	0	-100.0%
D. Loans to Low- and Moderate-Income Borrowers						
BankBoston	12	11	11	5	10	
BayBanks	8	6	4	0	0	
SubTotal	20	17	15	5	10	-41.2%
Fleet	31	38	61	26	26	
Shawmut	36	38	3	0	0	
SubTotal	67	76	64	26	26	-65.8%

* Most of this MSA is in Rhode Island; this table includes only loans in th Massachusetts part of the MSA.

Data sources: Loan Application Registrar (LAR) data made available in accordance with the Home Mortgage Disclosure Act (HMDA). 1994-1997 data from CDs distributed by the Federal Financial Institutions Council. 1998 data obtained directly from BankBoston and Fleet. Data include all loans by identifiable affiliatates of lenders named.

Low/Moderate Income (LMI): Defined for this table as up to 80% of the median family income in the Boston MSA. The maximum income to qualify as LMI was $41,000 in 1994, $42,000 in 1995, $45,000 in 1996, and $48,000 in 1997 & 1998.

Table Prepared by: Jim Campen, UMass/Boston, July 6, 1999

Table 9
MORTGAGE LOANS FOR HOME PURCHASES IN THE BARNSTABLE-YARMOUTH MSA
Before and After Recent Mergers by BankBoston and Fleet, 1994 - 1998

Lender	1994	1995	1996	1997	1998	% change 1995 to 1998
A. Total Loans						
BankBoston	56	64	54	109	151	
BayBanks	50	96	42	0	0	
SubTotal	106	160	96	109	151	-5.6%
Fleet	55	96	215	128	109	
Shawmut	121	109	7	0	0	
SubTotal	176	205	222	128	109	-46.8%
B. Loans to Black Borrowers						
BankBoston	2	1	0	1	1	
BayBanks	1	1	0	0	0	
SubTotal	3	2	0	1	1	-50.0%
Fleet	0	1	0	0	0	
Shawmut	1	2	0	0	0	
SubTotal	1	3	0	0	0	-100.0%
C. Loans to Latino Borrowers						
BankBoston	0	2	3	1	1	
BayBanks	0	1	0	0	0	
SubTotal	0	3	3	1	1	-66.7%
Fleet	0	0	1	1	0	
Shawmut	1	2	0	0	0	
SubTotal	1	2	1	1	0	-100.0%
D. Loans to Low- and Moderate-Income Borrowers						
BankBoston	22	18	7	23	22	
BayBanks	13	14	7	0	0	
SubTotal	35	32	14	23	22	-31.3%
Fleet	14	19	57	31	23	
Shawmut	28	30	2	0	0	
SubTotal	42	49	59	31	23	-53.1%

Data sources: Loan Application Registrar (LAR) data made available in accordance with the Home Mortgage Disclosure Act (HMDA). 1994-1997 data from CDs distributed by the Federal Financial Institutions Council. 1998 data obtained directly from BankBoston and Fleet. Data include all loans by identifiable affiliatates of lenders named.

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Table Prepared by: Jim Campen, UMass/Boston, July 6, 1999

Does One Plus One Equal More Than Two? – Or Less Than One?

A Study of Mortgage Lending Before and After Recent Mergers by Fleet and BankBoston

by

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Introduction

At the March 15 press conference held to discuss the proposed merger of their two companies, CEO's Terry Murray of Fleet and Chad Gifford of BankBoston emphasized a theme that was featured prominently on several of the slides projected for their audience: "1 + 1 > 2." They argued, in other words, that the combined institution resulting from the merger would be able to do more for its stockholders, customers, and communities than the sum of what the two pre-merger institutions have done separately.

On that same day, I completed a brief study that examined the impact on mortgage lending in Boston of the mid-1990s mergers that had reduced the number of big banks in the city from four to two. That study compared the combined lending of Bank of Boston and BayBanks before their merger to the lending of BankBoston in 1997, and the combined lending by Fleet and Shawmut before their merger to the lending of Fleet in 1997. In addition to looking at total home purchase loans in Boston, it presented data on lending to black, Latino, and low- and moderate-income (LMI) borrowers. The findings were dramatic: Fleet's 1997 lending, both overall and to each of these three categories of traditionally underserved borrowers, was approximately half of what Fleet and Shawmut had done jointly in 1995. In contrast, while BankBoston made 32% fewer total loans in 1997 than Bank of Boston and BayBanks had made in 1997, it actually made more loans to black and LMI borrowers in 1997 than had been made by its two predecessor banks in 1995, and its loans to Latinos were down by only 10%.[1]

The present study expands my earlier study in three ways. First, I have updated the analysis of lending in the city of Boston through 1998 (Table 1), using data obtained directly from Fleet and BankBoston.[2] Second, I have provided a parallel analysis of all lending in the state of Massachusetts (Table 2). Finally, I have prepared a summary presentation that juxtaposes my analysis of Fleet's lending in Massachusetts to the results of before-and-after analyses (by others) of Fleet's mortgage lending in New Jersey, New York, Connecticut, and New Hampshire from 1995 to 1997 (Table 3).

Summary of Major Findings

- In the aftermath of Fleet's recent mergers, mortgage lending has fallen far short of the "1 + 1 > 2" standard emphasized by CEOs Murray and Gifford. In fact, **in the great majority of cases, Fleet's post-merger results can be characterized as "1 + 1 <1." That is, post-merger mortgage loans by Fleet have been less than half as great as the combined number of loans by the pre-merger institutions**. This is true whether one looks at mortgage lending in Boston, in all of Massachusetts, or in any of the four other northeastern states examined. It is true whether one looks at overall lending, at lending to blacks, at lending to Latinos, or at lending to low- and moderate-income (LMI) borrowers. It is true whether one looks at data for 1997 or for 1998. And it is true whether one looks at just Fleet and Shawmut (in MA, CT, and NH) or at Fleet, Shawmut, and NatWest (in NJ and NY).

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[1] This one-page study, entitled "Does One Plus One Equal More than Two? Or Is It Less? Data on Mortgage Lending in the City of Boston by Boston's Big Four Banks of the Early and Mid-1990s – Before and After the Mergers that Resulted in Two Big Boston Banks for the Late 1990s," received considerable publicity. Its findings were featured in a Boston *Herald* article by Joe Bartolotta ("Merger Worries Housing Advocates," March 17) and in a Boston *Globe* lead editorial ("BankBoston's Good Example," March 22). Soon after this, a Fleet staff member contacted me to say that Fleet's numbers didn't agree with mine; we arranged an April 8 conference call to discuss the differences. It turned out that Fleet's numbers were larger than mine, in every category for every year, but that they showed very similar percentage reductions. For example, while I found that loans to blacks had declined from 439 in 1995 to 200 in 1997 – a decrease of 54.4%% – Fleet's numbers indicated that loans to blacks had declined from 517 to 244 – a decrease of 52.8%. (Much, but not all, of the differences between our numbers can be explained by my elimination of double-counting of Soft Second loans in Fleet and Shawmut's HMDA data [see footnote to Tables 1 and 2]).

[2] Although the Federal Financial Institutions Examination Council will not release its comprehensive, processed Home Mortgage Disclosure Act (HMDA) data for 1998 until late this summer, individual lending institutions must provide their own HMDA data within thirty days of a request made any time after March 1.

- The right hand columns of Tables 1 - 3 present the percentage changes from pre-merger to post-merger in the loans made by Fleet overall, and to black, Latino, and low- and moderate-income (LMI) borrowers. All of the approximately twenty changes were decreases, and all but two of these decreases were greater than 50%. The only smaller decreases were a 39.2% drop in lending to Latinos in Boston (from 143 loans in 1995 to 87 in 1998), and a 49.6% drop in lending to Latinos statewide (from 536 loans in 1995 to 270 in 1998). The biggest decreases were in loans to blacks and Latinos in New York, and to LMI borrowers in New Hampshire, all of which fell by more than 70%. The following examples are representative, rather than particularly dramatic:
    - In Boston, Fleet and Shawmut combined made 674 loans to LMI borrowers in 1995, while Fleet made just 335 loans to LMI borrowers in 1998 – a decrease of 50.3%.
    - In Massachusetts, Fleet and Shawmut combined made 702 loans to black borrowers in 1995, while Fleet made just 334 loans to black borrowers in 1998 – a decrease of 52.4%.
    - In the four northeastern states for which analyses were conducted, Fleet, Shawmut, and NatWest made a total of 1,575 loans to Latino borrowers in 1995, while Fleet made just 600 loans in 1997 – a decrease of 61.9%. The decreases in Latino lending in individual states ranged from 53.4% in New Jersey to 72.8% in New York.
- In strong contrast, **the merger of Bank of Boston and BayBanks has been followed by levels of mortgage lending to traditionally underserved categories of borrowers that are generally consistent with a standard of "1 + 1 = 2."** That is, the numbers of loans made to black, Latino, and LMI borrowers made by the post-merger BankBoston have been, on average, approximately equal to the total numbers of loans made by Bank of Boston plus BayBanks before the merger. This has been the case even though BankBoston's total lending to all borrowers fell substantially between 1995 and 1998 – by 38.0% in Boston and by 51.1% statewide.
    - Black borrowers purchasing homes in Boston received 123 loans from Bank of Boston and BayBanks combined in 1995, while they received 143 loans from BankBoston in 1998 – an *increase* of 16.3%. Statewide, lending to blacks decreased by less than one percent.
    - Latino borrowers purchasing homes in Boston received 50 loans from Bank of Boston and BayBanks combined in 1995, and exactly the same number from BankBoston in 1998. Statewide, lending to Latinos *increased* by 83.3% – from 192 loans in 1995 to 352 loans in 1998.
    - LMI borrowers purchasing homes in Boston received 269 loans from Bank of Boston and BayBanks combined in 1995, while they received 255 loans from BankBoston in 1998 – a decrease of 5.2%. Statewide, lending to LMI borrowers fell by 17.9%.

A Concluding Comment on Why These Findings Matter

Although the substantial decreases in *overall* mortgage lending that followed the recent mergers of Fleet and BankBoston represent a notable departure from the "1 + 1 > 2" standard emphasized by the two banks' CEOs, they provide little reason for community or public policy concern. Middle-class and affluent homebuyers face no shortage of mortgage lenders eager to provide mortgages at competitive rates. For example, even though overall mortgage loans in the City of Boston by Fleet and BankBoston and their merger partners fell by 42.2% between 1995 and 1997, overall lending in the city by all lenders still increased by 28.7%.[3]

[3] My calculations, from HMDA data. Loans by the biggest banks fell from 1,714 in 1995 to 990 in 1997, while loans by all lenders rose from 4,637 to 5,970. Statewide, the pattern was very similar: loans by the biggest banks fell by 51.3% (from 10,920 loans in 1995 to 5,320 in 1997), while loans by all lenders rose 29.3% (from 65,056 loans in 1995 to 84,091 in 1997).

The case is quite different, however, when it comes to traditionally underserved borrowers. Minority and lower-income households have benefited greatly in the 1990s from special mortgage loan programs offered by the biggest Boston banks. The big banks' capabilities and resources have allowed them to offer loan products, plus marketing and delivery systems, that smaller lenders can't match and that large out-of-state mortgage companies – not subject to regulatory review of their performance with respect to the mandates of the Community Reinvestment Act – have shown no interest in duplicating. As a result, Fleet and BankBoston, combined with Shawmut and BayBanks, gained disproportionately large market shares of all lending to these households. For example, while they made 37.0% of all home-purchase loans in Boston in 1995, they made 63.8% of all loans to black and Latino borrowers in Boston in that year.

Given the special role played by the biggest banks in lending to traditionally underserved borrowers, there are strong grounds for fearing that a drop in post-merger mortgage lending to these borrowers by the proposed Fleet Boston could result in their experiencing a net loss of loans. Indeed, this is precisely what happened following the last round of mergers. **Between 1995 and 1997, a 40.1% decrease in Fleet plus BankBoston's lending to blacks and Latinos was accompanied by a decrease of 1.1% in total lending to these borrowers – even though, as noted above, a slightly larger (42.2%) decrease in Fleet plus BankBoston's overall lending was accompanied by a 28.7% increase in total lending by all lenders.**[4]

Accordingly, there are excellent reasons for communities to insist – and for regulators to require – that the new institution be committed to achieving its stated standard of "1 + 1 > 2" for mortgage lending to traditionally underserved borrowers. While the record of Fleet in its recent mergers offers grounds for deep concern, the record of BankBoston – by showing that the standard is one that can be achieved – offers grounds for hope.

[4] My calculations, from HMDA data. Loans to blacks and Latinos by the biggest banks fell from 755 in 1995 to 542 in 1997, while loans by all lenders fell from 1,183 to 1,170. Statewide, the pattern was similar: loans to blacks and Latinos by the biggest banks fell 39.5% (from 1,642 in 1995 to 993 in 1997), while loans by all lenders rose 7.3% (from 4,262 in 1995 to 4,575 in 1997).

Table 1
MORTGAGE LOANS FOR HOME PURCHASES IN THE CITY OF BOSTON
Before and After Recent Mergers by BankBoston and Fleet, 1994 - 1998

Lender	1994	1995	1996	1997	1998	% change 1995 to 1998
A. Total Loans						
BankBoston	281	237	366	477	434	
BayBanks	314	463	240	0	0	
SubTotal	595	700	606	477	434	-38.0%
Fleet	497	462	687	513	525	
Shawmut	492	552	41	0	0	
SubTotal	989	1,014	728	513	525	-48.2%
B. Loans to Black Borrowers						
BankBoston	94	65	102	135	143	
BayBanks	64	58	45	0	0	
SubTotal	158	123	147	135	143	16.3%
Fleet	250	187	246	200	199	
Shawmut	171	252	28	0	0	
SubTotal	421	439	274	200	199	-54.7%
C. Loans to Latino Borrowers						
BankBoston	27	27	40	45	50	
BayBanks	9	23	11	0	0	
SubTotal	36	50	51	45	50	0.0%
Fleet	73	70	77	72	87	
Shawmut	67	73	4	0	0	
SubTotal	140	143	81	72	87	-39.2%
D. Loans to Low- and Moderate-Income Borrowers						
BankBoston	160	135	189	274	255	
BayBanks	116	134	97	0	0	
SubTotal	276	269	286	274	255	-5.2%
Fleet	320	274	421	323	335	
Shawmut	282	400	36	0	0	
SubTotal	602	674	457	323	335	-50.3%

Data sources: Loan Application Registrar (LAR) data made available in accordance with the Home Mortgage Disclosure Act (HMDA). 1994-1997 data from CDs distributed by the Federal Financial Institutions Council. 1998 data obtained directly from BankBoston and Fleet. Data include all loans by identifiable affiliatates of lenders named.

Data adjustment: Loan totals have been adjusted, for loans in the city of Boston only, so that only one loan is counted for each home purchased under the Soft Second Loan Program. In many cases, HMDA data include both the first and the (soft) second mortgage loans originated for these home purchases. This time-consuming adjustment, which I believe improves the meaningfulness of the data, results in loan totals lower than those calculated by others from the raw HMDA data. However, the effects of this adjustment on the percentage changes reported in the right-hand column of the table above are minor. The total number of duplicate (soft second) mortgages eliminated from my database are:

BankBoston+BayBanks: '94 -- 54 loans; '95 -- 29 loans; '96 -- 10 loans; '97 -- 7 loans; '98 -- no loans
Fleet+Shawmut: '94 -- 135 loans; '95 -- 142 loans; '96 -- 99 loans; '97 -- 91 loans; '98 -- 68 loans

Low/Moderate Income (LMI): Defined for this study as up to 80% of the median family income in the Boston area. The maximum income to qualify as LMI was $41,000 in 1994, $42,000 in 1995, $45,000 in 1996, and $48,000 in 1997 & 1998.

Table Prepared by: Jim Campen, UMass/Boston, June 7, 1999

Table 2
MORTGAGE LOANS FOR HOME PURCHASES IN THE STATE OF MASSACHUSETTS
Before and After Recent Mergers by BankBoston and Fleet, 1994 - 1998

Lender	1994	1995	1996	1997	1998	% change 1995 to 1998
A. Total Loans						
BankBoston	1,790	1,396	2,240	2,304	2,368	
BayBanks	2,579	3,444	1,697	0	0	
SubTotal	4,369	4,840	3,937	2,304	2,368	-51.1%
Fleet	2,466	2,997	4,356	3,016	3,240	
Shawmut	3,558	3,083	192	0	0	
SubTotal	6,024	6,080	4,548	3,016	3,240	-46.7%
B. Loans to Black Borrowers						
BankBoston	170	97	166	187	210	
BayBanks	119	115	83	0	0	
SubTotal	289	212	249	187	210	-0.9%
Fleet	410	342	461	345	334	
Shawmut	333	360	41	0	0	
SubTotal	743	702	502	345	334	-52.4%
C. Loans to Latino Borrowers						
BankBoston	97	114	218	238	352	
BayBanks	58	78	34	0	0	
SubTotal	155	192	252	238	352	83.3%
Fleet	271	351	389	223	270	
Shawmut	269	185	16	0	0	
SubTotal	540	536	405	223	270	-49.6%
D. Loans to Low- and Moderate-Income Borrowers						
BankBoston	736	582	862	1,038	1,145	
BayBanks	781	812	470	0	0	
SubTotal	1,517	1,394	1,332	1,038	1,145	-17.9%
Fleet	1,326	1,458	2,247	1,513	1,503	
Shawmut	1,693	1,589	144	0	0	
SubTotal	3,019	3,047	2,391	1,513	1,503	-50.7%

Data sources: Loan Application Registrar (LAR) data made available in accordance with the Home Mortgage Disclosure Act (HMDA). 1994-1997 data from CDs distributed by the Federal Financial Institutions Council. 1998 data obtained directly from BankBoston and Fleet. Data include all loans by identifiable affiliates of lenders named.

Data adjustment: Loan totals have been adjusted, for loans in the city of Boston only, so that only one loan is counted for each home purchased under the Soft Second Loan Program. In many cases, HMDA data include both the first and the (soft) second mortgage loans originated for these home purchases. This time-consuming adjustment, which I believe improves the meaningfulness of the data, results in loan totals lower than those calculated by others from raw HMDA data. However, the effects of this adjustment on the percentage changes reported in the right hand column of the table above are minor. The total number of duplicate (soft second) mortgages eliminated from my database are:

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Low/Moderate Income (LMI): Defined for this study as up to 80% of the median family income in the Boston area. The maximum income to qualify as LMI was $41,000 in 1994, $42,000 in 1995, $45,000 in 1996, and $48,000 in 1997 & 1998.

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Table 3
MORTGAGE LOANS FOR HOME PURCHASES IN SELECTED NORTHEASTERN STATES
Before and After Recent Fleet Mergers, 1995 - 1997

	1995	1996	1997	% change 1995 to 1997
A. Massachusetts (includes Fleet all years and Shawmut in 1995 & 1996)				
Total Loans	6,080	4,548	3,016	-50.4%
Loans to Black Borrowers	702	502	345	-50.9%
Loans to Latino Borrowers	536	405	223	-58.4%
Loans to Low & Mod Income Borrowers	3,047	2,391	1,513	-50.3%
B. New Jersey (includes Fleet all years, Shawmut in 1995, and NatWest in 1995 & 1996)				
Total Loans	3,716	1,292	1,293	-65.2%
Loans to Black Borrowers	232	105	100	-56.9%
Loans to Latino Borrowers	279	114	130	-53.4%
Loans to Low & Mod Income Borrowers	1,159	517	482	-58.4%
C. New York (includes Fleet all years, Shawmut in 1995, and NatWest in 1995 & 1996)				
Total Loans	8,059	4,300	2,415	-70.0%
Loans to Black Borrowers	873	431	227	-74.0%
Loans to Latino Borrowers	467	239	127	-72.8%
Loans to Low & Mod Income Borrowers	1,646	1,083	603	-63.4%
D. Connecticut (includes Fleet all years, Shawmut in 1995 & 1996)				
Total Loans	2,391	1,693	1,223	-48.8%
Loans to Black Borrowers	331	258	125	-62.2%
Loans to Latino Borrowers	293	192	120	-59.0%
Loans to Low & Mod Income Borrowers	1,016	749	456	-55.1%
E. New Hampshire (includes Fleet all years, Shawmut in 1995 & 1996)				
Total Loans	99	39	31	-68.7%
Loans to Low & Mod Income Borrowers	35	13	9	-74.3%
F. Five State Total (includes Fleet all years, Shawmut & NatWest in 1995 & 1996)				
Total Loans	20,345	11,872	7,978	-60.8%
Loans to Black Borrowers	2,138	1,296	797	-62.7%
Loans to Latino Borrowers	1,575	950	600	-61.9%
Loans to Low & Mod Income Borrowers	6,903	4,753	3,063	-55.6%

Sources:

MA: HMDA data analysis by Jim Campen, UMass/Boston (from Table 2)

NJ, NY, & CT: HMDA data analysis by Research Department, National Community Reinvestment Coalition, Washington DC

NH: HMDA data analysis by Granite State Community Reinvestment Association, Condord NH

Notes:

Massachusetts data adjusted to eliminate double counting of Soft Second Loans in Boston (see note to Table 2); without this adjustment, my numbers for Massachusetts are very close to those calculated by the NCRC.

Data include loans by all identifiable affiliates of Fleet, NatWest, and Shawmut.

New Hampshire data are for conventional loans only; data for other states include all home purchase loans.

Table Prepared by: Jim Campen, UMass/Boston, June 4, 1999

Testimony

of

Robert R. Davis

Director of Government Relations

America's Community Bankers

on

The Fleet Financial Group, Inc./BankBoston Merger

before

The Federal Reserve Bank of Boston

on

July 7, 1999

My name is Robert R. Davis and I am Director of Government Relations for America's Community Bankers. We appreciate the opportunity to present our views on the acquisition of BankBoston by Fleet Financial. Your day has been long and I promise to be as brief as possible.

America's Community Bankers is a national banking trade association representing progressive community banks of all sizes. In New England, our membership covers the complete range of institutions other than Fleet and BankBoston, consisting of savings banks, co-operative banks, savings associations and commercial banks. Our New England members include multi-billion dollar regional banks such as Peoples Heritage Bank, Webster Bank and People's Bank, which may be among Fleet's large-institution competitors in the future. ABC membership also includes the smallest institutions in the region, including co-op banks with less than $10 million in assets. ACB also represents almost all banks that operate as mutual institutions. We are the only national trade group that represents the entire spectrum of banks in New England, other than money center banks.

Our testimony will focus on the divestiture of branches, ATMs and other assets necessary for the proposed acquisition to comply with antitrust law, as well as other competitive considerations. Our concerns can be summarized into five points:

1. Community banks in New England are fierce and effective competitors that should be afforded a significant role in resolving the anti-trust problems inherent in a large acquisition in a concentrated banking market.

2. Unlike other regions of the country, savings institutions in New England have well-diversified portfolios, and are strong competitors for the business customer.

3. The unprecedented potential concentration in ATM ownership that could result from the proposed acquisition raises economic concerns that must be addressed by the regulators' anti-trust analysis. The divestiture plan being developed must take into account the unique economic implications of such a high concentration of ATM ownership, particularly within the Route 128 corridor.

4. So as not to revisit problems that have emerged in the past, the government should provide careful scrutiny of any restrictive real estate covenants that would hamper future competition.

5. Similarly, other contract provisions, such as restrictions on communications between potential consortia partners in bidding or restrictions on future hiring practices of banks that bid for divested branches, must be prohibited.

Community Banks As Effective Competitors

America's Community Bankers recognizes that the government, as part of its consideration of divestitures resulting from acquisitions, has the objective to introduce other large competitors into the New England banking scene. We have no disagreement with this goal. However, we firmly believe that the most competitive banking environment in New England can be created only by also enhancing the position of the many community banks. Community banks of all sizes are well positioned to assume this role. Each of our members in New England -- from the multi-billion dollar institutions, to those of several hundred million, to those that are much smaller -- effectively compete in their market niche for both the business and the retail customer.

New England banks have the oldest and strongest tradition in America, and have illustrated their competitive mettle by pioneering the move to nation-wide NOW accounts almost 20 years ago. These same institutions currently are at the cutting-edge of efforts to bring interest-bearing demand accounts to businesses as well as consumers, and will continue to be a driving competitive force in other areas.

Savings Institutions As Strong Competitors For The Business Customer

Savings institutions in New England are unique because of the extent of their business lending, and current trends indicate that business lending is a rapidly growing part of their balance sheets. State-chartered savings banks hold approximately 5 percent of their assets in commercial loans, an amount almost as great as their consumer loan portfolios. Savings associations, which elsewhere in the country frequently are only beginning to engage in business lending, hold over four percent of their assets in commercial loans. Even co-op banks, which historically have had the strongest mortgage lending orientation among New England banks, hold almost 2 percent of their assets in commercial loans, and some of the co-ops are quite active commercial lenders. Commercial banks other than Fleet and BankBoston hold over 6 percent of their assets as commercial loans. Following current trends and aided by an open divestiture process, commercial lending by community banks will continue to grow, bringing strong competitive benefits to both community and middle market business borrowers.

ATM Concentration

New England has the highest concentration of ATM ownership of any region in the country, and Massachusetts has the highest concentration of any state. After the acquisition, Fleet will control two-thirds of the ATM machines in Massachusetts, with a much higher concentration within the Route 128 corridor.

ATM placement has become a much keener competitive tool in recent years. A combination of this trend and the unprecedented potential concentration of ownership means that it is essential that ATM concentration assume a central position in the current anti-trust analysis. Although Federal Reserve analysis may once have relied primarily on Herfindahl-Hirshman indices to measure deposit concentration or business loan concentration, today the same rigorous analysis must be applied to ATM concentration.

Restrictive Real Estate Covenants

Prior merger experiences in the New England area have shown the need for divestiture plans also to address covenants which may restrict future uses of divested real estate. In particular, restrictions on real estate use and requirements for placements of competitor's ATMs have discouraged entry of effective community bank competition into certain markets. We are concerned that this remains a problem area that has not been adequately addressed, particularly in view of the unique problems associated with ATM concentration.

Restrictive Contract Provisions

We are aware that at least two provisions in confidentiality agreements that must be signed by bidders may serve to chill the bidding process and diminish the competitive role of growing community banks in serving in New England. We brought these to the attention of Federal Reserve staff and understand that some relief may have been provided. However, we believe these provisions, and perhaps others, are serving to hamper community bank bidding for divested branches. In particular, the confidentiality agreements require blanket restrictions on hiring of Fleet or BankBoston employees under a variety of circumstances. Only upon demand has this restriction been partially relaxed. Obviously, community banks are hampered in the bidding process if in order to bid they must voluntarily agree to give up the right to hire employees that now, in the past or in the future might work for the largest bank employer in the region.

A second restriction limits any bidding company from "discussing with or offering to any third party any equity participation in a possible transaction or any other form of joint acquisition by the receiving party and such third party." Of course, this effectively limits preliminary discussions with possible consortia partners without a case-by-case approval by Fleet, which may or may not be granted. Although it is my understanding and this contract provision is negotiable, I know of no instance when such a negotiation has been successful.

Conclusion

America's Community Bankers has no interest whatsoever in impeding the BankBoston acquisition by Fleet. To the contrary, we believe the transaction can bring new efficiencies and competition to the marketplace. For that to occur, the Federal Reserve and the Department of Justice must carefully construct a divestiture plan to resolve anti-trust concerns, and that divestiture plan should take into account the points raised above. We strongly believe that the acquisition and divestitures in question can result in gains for the entire banking industry and all of its customers in New England. We are just as strongly convinced that the best solution will be a divestiture that ensures a strong role for competitive community banking throughout the region.

Statement of Donald S. Glass
President, Community Bank League of New England
Boston, Massachusetts

Federal Reserve Board Public Meeting
July 7, 1999
Re: Merger of Fleet Financial Group and BankBoston Corporation

Good morning. For the record my name is Donald Glass. I am the President of the Community Bank League of New England, a regional trade association representing 118 community banks located throughout the six New England states. Our members range in size from $9 million to $1.2 billion with an average asset size of $147 million.

We believe that generally this merger will have a very positive impact on the economic vitality of the New England region. It is good for the two companies and the region as a whole. We advocate a win-win scenario where community banks, small businesses, local communities and consumers win as well, as a consequence of this transaction.

Community banks are a vital source for financial services to small businesses, local communities, and consumers. Community banks strive to provide quality products and services at affordable prices while demonstrating a strong commitment to and investment in their local communities. A key principle in the League's mission statement is to foster an environment in which community banks can operate in a productive, profitable manner. In line with our mission, we believe it is essential and in the best interest of the banking industry as a whole that this proposed transaction be conducted in a way that allows community banks to play a role in the completion of this merger.

We have three key concerns regarding the proposed merger between Fleet Financial Group and BankBoston Corp. They are as follows:

1. There are a number of anti-trust issues such as overall market dominance, state imposed deposit caps as well as the concentration of ATM ownership. The latter is of primary concern to our members, since together Fleet and BankBoston own the largest number of bank-owned ATM machines in use today in Massachusetts. In the metropolitan Boston area their combined ATM ownership is well over 50 percent. This gives them the ability to employ predatory pricing practices, such as surcharging. We strongly urge that these anti-trust concerns be thoroughly evaluated and that serious consideration be given to requiring the divestiture of a specific percentage of ATM machines both those located in branches and free-standing alike.

2. In the past, large banks in this region have included non-compete clauses in sale and other documents relating to the divestiture of bank branches and real estate. In this regard, we would urge you to make sure that this practice is prohibited.

3. We believe that community banks should be allowed to have the opportunity to participate in the purchase of deposits and branches to be divested. Their participation in the divestiture process will help ensure that the community banking industry remains a strong and vibrant player serving local communities in their respective markets.

Thank you for considering our views.