FAIR HOUSING IN THE SUBURBS: THE ROLE OF A MERGED FLEET BOSTON IN THE DIVERSIFICATION OF THE SUBURBS

Report to the Federal Reserve Board
Concerning the Merger of BankBoston Corp. and Fleet Financial Group

Presented on Behalf of:

Belmont Fair Housing Committee/Belmont Housing Partnership
Town of Belmont

Prepared and Presented by:

Roger D. Colton
Fisher, Sheehan & Colton
Public Finance and General Economics
34 Warwick Road, Belmont, MA 02478-2841
617-484-0597 (voice) *** 617-484-0594 (fax)
roger@fsconline.com (e-mail)
http://www.fsconline.com

July 7, 1999

INTRODUCTION

One question presented to federal regulators by the proposed merger of Fleet Financial Group and BankBoston Corporation is whether the merged bank will adequately address the credit needs of the community. In assessing whether this will occur, there is a need to differentiate between the urban and the suburban communities. There is a significant focus of attention today on developing affordable housing in the urban community. That focus is clearly necessary. Unfortunately, however, there is much less attention focused on the suburbs. One of the next major steps that must occur in community development and fair housing is to facilitate the diversification of suburban communities.

The data discussed below present a compelling argument on this need for diversification in the suburban community. The following discussion focuses on one slice of Boston's suburbia, beginning with Belmont and radiating north and west eventually to capture the following ten communities:

Belmont	Winchester	Sudbury
Waltham	Arlington	Concord
Lexington	Bedford	
Woburn	Burlington	

Information on Lincoln was sought but was not available. The data show a need for:

- Greater socio-economic diversification; and
- Greater racial and ethnic diversification.

Each of these needs will be documented below. In addition, a proposal for action to be imposed as a condition of the merger will be advanced.

THE BELMONT FAIR HOUSING COMMITTEE

The Belmont Fair Housing Committee is a Committee of the Town of Belmont. The Committee has been in existence since 1989. In the *Policy Statement and Preamble* to the creation of the Fair Housing Committee, the Belmont Board of Selectmen stated, amongst other things, that:

> IT IS HEREBY RESOLVED that the Town of Belmont affirms its commitment to ensure equal opportunity in housing for all persons who are or who desire to reside within its boundaries. In the conduct of all Town of Belmont programs and activities affecting the housing of town residents, the

policy of the Town of Belmont shall be to promote equal choice and access to housing for all persons.

* * *

The Town of Belmont recognizes that discriminatory practices are detrimental to its citizens and to the future development of Belmont, and manifests its support for Fair Housing Legislation. The Town of Belmont shall take necessary action to remedy the effects of discrimination and prevent the growth of such practices. The Town will aggressively move to counteract any activities which restrict the potential for equal opportunity in housing.

The Town of Belmont encourages all real estate brokers, agents, home builders, and developers, mortgage holders, and landlords to review operating practices and work with the Town in providing equal housing opportunities.[1]

SOCIO-ECONOMIC DIVERSITY IN HOMEOWNERSHIP

The first major credit need in the suburban community, as relevant from the perspective of this report, involves the promotion of socio-economic diversity. One lesson found in the available data is that the affordability of units is not the only barrier to homeownership in the ten communities studied. Homeownership is unavailable even when affordable homeownership opportunities exist. Information was obtained for each of the study communities on the number of units that are affordable at different levels of median income. This information shows that merely because a unit is affordable at a designated income level does not mean that it is actually occupied by a family (or household) with that income. "Occupancy distribution" has been discussed in detail elsewhere.[2]

Not surprisingly, there are few affordable homeownership units available at the lowest levels of median income in the ten study communities. Belmont, for example, has only five homeownership units affordable for households at or below 30 percent of median income and only 24 units affordable at or below 80% of median income. Only Sudbury has fewer affordable homeownership units. Even the three communities with the most units that are affordable at or below 80% of median income (Waltham: 241; Burlington:

\1\ ***Belmont Fair Housing Plan***, Section I, Policy Statement and Preamble, adopted by Belmont Board of Selectmen (June 6, 1989).

\2\ Roger Colton (Spring 1997). "Fair Housing and Affordable Housing: Availability, Distribution and Quality." ***Colloqui*** (Cornell University journal of planning).

217; Woburn: 213) do not have a large number units relative to the total size of those communities. This data is presented in Table 1.

The lack of affordable housing in these suburban communities, however, is not the story to take notice of in this context. Even aside from the lack of available affordable units, even those affordable homeownership units that *are* available are not occupied by households with lower incomes. Of the 101 homeownership units affordable at 0 - 30% of median income in Bedford, for example, 0 are occupied by households with incomes at 0 - 30% of median income. Of the 106 homeownership units affordable at 50 - 80% of median income in Burlington, only 27 are actually occupied by households with incomes at or below 80% of median income. The totals for the ten communities are set forth in Table 2 below.

As can be seen, the lack of a supply of affordable housing units is not the only barrier to socio-economic diversity in the ten study communities. Less than one-fifth of the units affordable at 0 - 30% of median income are actually occupied by households with those incomes (91 / 477 = 19.1%). Only roughly half of the homes affordable at 31 - 50% of median (116 / 241 = 48.1%), as well as at 51 - 80% of median (234 / 468 = 50.0%), are occupied by households with incomes at or below the affordable levels.

It is often asserted that Boston's suburban community lacks a greater socio-economic diversity because of the lack of affordable housing. The data above confirm that this is frequently the case. The data further show, however, that something more stands as a barrier to socio-economic diversification. The data present a compelling case that even when and where affordable homeownership units exist, they are not being purchased by households at lower incomes. To meet the needs of diversifying the suburbs, specific proactive steps are necessary. The need is more than simply to "avoid discrimination." A proposal for action is presented below.

Table 1
Availability of Affordable Homeownership Units vs. Occupancy of Affordable Homeownership Units
By Percent of Median Income of Unit Occupant
By Individual Community (10 Northwest Boston Suburbs)

	Units Affordable at 0 - 30% Median Income		Units Affordable at 31 - 50% Median Income		Units Affordable at 51 - 80% Median Income	
	Total Units	Units Occupied by HHs @ 0 - 30%	Total Units	Units Occupied by HHs @ 0 - 50%	Total Units	Units Occupied by HHs @ 0 - 80%
Arlington	34	0	9	0	49	25
Bedford	101	0	21	0	3	3
Belmont	5	0	6	6	13	13
Burlington	77	15	34	0	106	27
Concord	29	23	11	0	6	0
Lexington	52	0	28	24	71	24
Sudbury	6	0	0	0	0	0
Waltham	103	44	45	41	93	48
Winchester	21	0	30	8	10	0
Woburn	49	9	47	37	117	94

SOURCE:

U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS) CD-ROM (1993).

Table 2
Availability of Affordable Homeownership Units vs. Occupancy of Affordable Homeownership Units
By Percent of Median Income of Unit Occupant
Cumulative Totals (10 Northwest Boston Suburbs)

	0 - 30% of median		31 - 50% of median		51 - 80% of median	
	Affordable	Occupied /a/	Affordable	Occupied /b/	Affordable	Occupied /c/
Total (10 communities)	477	91	241	116	468	234

NOTES:

/a/ Occupied by households with incomes at 0 - 30% of median income.
/b/ Occupied by households with incomes at 0 - 50% of median income.
/c/ Occupied by households with incomes at 0 - 80% of median income.

RACIAL AND ETHNIC DIVERSITY IN HOMEOWNERSHIP

The second major credit need in the suburban community, as relevant for purposes of this report, involves the promotion of racial and ethnic diversification. The data from the ten study communities used for this report show a lack of diversification even when controlling for income (as measured by percent of median income). Merely because units may be affordable to households of color[3] does not mean that households of color are becoming homeowners in these suburban communities.

Table 3 presents data on the distribution of African-American homeowners with incomes at or above 80% of median income. Table 4 presents data for Hispanic homeowners.

The lack of racial and ethnic diversity in the ten study communities cannot be attributed exclusively to the lack of affordable housing availability. As Table 3 reveals, throughout the ten communities, the number of total African-American homeowners with incomes at or above 80% of median income is consistently less than one percent of the total number of homeownership units affordable at those levels. The performance is nearly identical relative to Hispanic homeowners at that income level.

By definition, the price of housing is not the limiting factor in this analysis. The data is limited to housing determined to be affordable at 80% of median income or more with which to begin. The data is also limited to African-American and Hispanic households who have incomes of at least that amount. Something more than the mere unaffordability of homeownership is creating barriers to suburban homeownership for households of color.

Consider the total numbers rather than simply the percentages. In Arlington, there are 10,638 homeownership units affordable to households with incomes at or above 80% of median income, but only 41 African-American homeowners with incomes above 80% of median income. In Concord, while there are 4,393 homeownership units affordable above 80% of median income, there are only six (6) African-American homeowners with incomes at that level. In total, while there are 65,628 homeownership units affordable at or above 80% of median income in the ten study communities, there are only 356 African-American homeowners with those incomes in the ten study communities.

The data is nearly identical for Hispanics. While there are 65,628 homeownership units affordable at or above 80% of median income in the ten study communities, there are only 376 Hispanic homeowners with those incomes in those communities.

---

[3] Persons of color are defined to include black (not of Hispanic descent) and Hispanic.

Table 3
The Number of African-American Homeowners in Ten Northwest Boston Suburban Communities
Controlling for Incomes at or Above 80% of Median Income

Northwestern Boston Suburbs	Units Available Above 80%	Black (not Hispanic) Homeowners			
		81-95%	95%+	Total 81%+	Percent
Arlington	10,638	0	41	41	0.4%
Bedford	3,070	0	44	44	1.4%
Belmont	5,735	0	0	0	0.0%
Burlington	6,013	0	29	29	0.5%
Concord	4,393	0	6	6	0.1%
Lexington	8,476	6	58	64	0.8%
Sudbury	4,304	0	45	45	1.1%
Waltham	9,282	20	53	73	0.8%
Winchester	5,690	11	25	36	0.6%
Woburn	8,027	0	18	18	0.2%
Total 10 Communities	65,628	37	319	356	0.5%

SOURCE:

U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS) CD-ROM (1993).

Table 4
The Number of Hispanic Homeowners in Ten Northwest Boston Suburban Communities
Controlling for Incomes at or Above 80% of Median Income

Northwestern Boston Suburbs	Units Available Above 80%	Hispanic Homeowners			
		81-95%	95%+	Total 81%+	Percent
Arlington	10,638	0	79	79	0.7%
Bedford	3,070	0	16	16	0.5%
Belmont	5,735	0	21	21	0.4%
Burlington	6,013	0	37	37	0.6%
Concord	4,393	0	5	5	0.1%
Lexington	8,476	6	51	57	0.7%
Sudbury	4,304	0	12	12	0.3%
Waltham	9,282	17	35	52	0.6%
Winchester	5,690	0	6	6	0.1%
Woburn	8,027	18	73	91	1.1%
Total 10 Communities	65,628	41	335	376	0.6%

SOURCE:

U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS) CD-ROM (1993).

As can be seen, the lack of a supply of affordable housing units is not the only barrier to socio-economic diversity in the ten study communities.

Identifying and seeking remedies for these barriers to diversity in homeownership is one essential element in fair housing lending. Fair housing lending involves more than merely "avoiding discrimination." Fair housing lending has as its ultimate goals the elimination of the effects of any fair housing impediments identified through the lender's analysis outside the lender's control and the elimination of any identified impediments within the control of the lender. Translating these goals into objectives and programs is discussed below.

PROPOSED REMEDY

Based on the two credit needs of the suburban communities identified above, it would be appropriate for Fleet Boston to commit to working with the greater Boston fair housing community to develop, by the end of Calendar Year 2000, a Plan of Action to promote the diversification of the suburbs. This Plan would include a stated goal; supported by quantifiable, verifiable short-term (1-year; 3-year) and long-term (5-year) objectives; a written work plan in furtherance of accomplishing the objectives, including an overall strategy and implementing tasks; an evaluation mechanism to determine performance relative to the stated objectives; and a review mechanism (including both internal and external persons) charged with utilizing the evaluation to formulate recommendations on modifications, as needed, to the Plan of Action should the objectives not be achieved.

The Program Model

This Plan of Action should be based on fundamental planning principles. Bank lending programs to further fair housing in the suburbs are but one type of a "program."[4] Basic planning principles dictate that certain steps are as applicable to the planning and implementation of fair housing lending as they are to any program of any nature. The program design for a fair housing initiative to support diversity in the suburbs should include the following steps:

1. **Articulating the program goal:** The program goal is the ultimate end-in-view resulting from the program.

\4\ "A 'program' may be any activity, project, function, or policy that has an identifiable purpose or set of objectives." U.S. General Accounting Office, ***Performance Measurement and Evaluation: Definitions and Relationships, Glossary***, at 1 (April 1998).

2. **<u>Establishing one or more program objective(s)</u>:** Program objectives are to be both attainable and measurable. It is against program objectives that program performance is subsequently measured.

3. **<u>Identifying the strategy to accomplishing the objective(s)</u>:** The "strategy" of a program is the overall direction in which the program intends to move.[5]

4. **<u>Identifying one or more tactics through which to implement the strategy</u>:** Program "tactics" are the specific action steps through which a strategy is implemented. Tactics are those program elements which would be included in a work plan. A program may, and likely will, have multiple tactics to implement the strategy.

5. **<u>Measuring program performance</u>:**[6] Measuring a program's performance involves measuring outcomes.[7] Measuring outcomes is different from measuring outputs or activities. Neither output measures nor activity measures contribute to a determination of whether the program objective is being met. Accomplishment of an objective can only be measured through an analysis of program outcomes.

6. **<u>Evaluating program performance in light of the program objectives</u>:** Program performance should be measured relative to the program objective.[8] This involves creating a feedback loop. The feedback loop

---

\5\ The strategy is important in that it is disconnected from tactics. A tactic may be effective and yet still not accomplish the program goal if the strategy is flawed with which to begin.

\6\ "Performance measures may address the type or level of program activities conducted (process), the direct products and services delivered by a program (outputs), and/or the results of those products and services (outcomes)." ***Performance Measurement and Evaluation***, *supra.*

\7\ "Performance measurement focuses on whether a program has achieved its objectives, expressed as measurable performance standards." ***Performance Measurement and Evaluation***, *supra.* As is thus evident, it is possible to know that a program reduces energy burdens and/or energy bills, without documenting what *outcome* that program result generates.

\8\ "Performance measurement is the ongoing monitoring and reporting of program accomplishments, particularly progress towards preestablished goals." ***Performance Measurement and Evaluation***, *supra.*

> provides the planner with the ability to determine if the objective was met, and if not, what changes need to be made to improve performance.[9]

These program planning steps are illustrated in Figure 1. Two important observations need to be made about this planning process. First, it is critical to distinguish between strategy and tactics. Even successful tactics fail if the strategy is flawed in the first place. If a strategy is in error, the effectiveness of the tactics becomes irrelevant, since successful tactics cannot be used within a flawed strategic framework to accomplish program objectives. Second, an appropriate strategy can fail due to unsuccessful tactics. Under these circumstances, the appropriate planning response is to determine whether the tactics had some underlying flaw, or whether they were poorly implemented.

The Evaluation Model: Outcomes/Not Activities

The model proposed above represents an important change in the approach to fair housing lending in the suburban communities. Rather than focusing attention on "activities" or "outputs" on the part of a merged Fleet Boston, the proposed program focuses instead on performance or "outcomes." An outcome-based focus is not merely a different word for "quotas." Outcome-based planning and evaluation is a recognized and growing planning tool for all types of program design and development.

Of the performance measurement obligations that are increasingly being applied to both public and private programs today, perhaps best known is the Government Performance and Results Act of 1993 (GPRA). GPRA was designed to address the same conceptual issues a lender must address for its fair housing programs: "to grapple() with how to best improve effectiveness and service quality while limiting costs."[10] GPRA was enacted in response to:

> the need to shift the focus of government decisionmaking and accountability away from a preoccupation with the activities that are undertaken. . .to a focus on the results of those activities. . . The key concepts of this performance-based management are the need to define clear agency missions, set results-oriented goals, measure progress toward achievement

---

\9\ "A program evaluation's typically more in-depth examination of program performance and context allows for an overall assessment of whether the program works and identification of adjustments that may improve its results." ***Performance Measurement and Evaluation***, *supra*.

\10\ James Hinchman (Acting Comptroller General). (June 24, 1997). ***Managing for Results: The Statutory Framework for Improving Federal Management and Effectiveness***, at 1, Testimony before U.S. Senate Committee on Appropriations and Committee on Governmental Affairs (GAO/T-GGD/AIMD-97-144).

of those goals, and use performance information to help make decisions and strengthen accountability.[11]

The transformation to performance-based management is not easy under GPRA. But the substantial difficulties which federal agencies will face are much the same that Fleet Boston will face with its fair housing programs. As the U.S. General Accounting Office (GAO) has observed, one goal of the statute for the federal government is to:

> ensur(e) that agencies are managing to achieve results rather than just focusing on activities or processes. Many agencies have a difficult time moving from measuring program activities to establishing results-oriented goals and performance measures. The fundamental reason that this is so difficult is that, to manage on the basis of results, agencies must move beyond what they control--that is, their activities--to focus on what they merely influence--their results.[12]

In this observation, one could replace the word "agencies" with the words Fleet Boston and the fundamental truth of the statement would still attend.

Federal agencies have been provided substantial guidance on the aspects of GPRA that relate to the issue of definition of adequate and appropriate performance measures. The *Executive Guide: Effectively Implementing the Government Performance and Results Act*[13] states that its review of private, as well as state and foreign government agencies "that were successful in measuring their performance" had developed performance measures that were based on four characteristics:

- o They were tied to program goals and demonstrated the degree to which the desired results were achieved;

- o They were limited to a vital few that were considered essential for producing data for decisionmaking. "These vital few measures should cover the key performance dimensions that will enable an organization to assess accomplishments, make decisions, realign processes, and assign accountability."[14]

\11\ *Id.*

\12\ *Id.*, at 8.

\13\ Comptroller General of the United States, U.S. General Accounting Office, GAO/GGD-96-118 (June 1996).

\14\ *Id.*, at 25.

- They were responsive to multiple priorities, forcing managers and policymakers to take "competing interests into account and create incentives for managers to strike the difficult balance among competing demands."[15] and

- They were responsibility-linked to establish accountability for results. "A clear connection between performance measures and program offices helps to reinforce accountability and ensure that, in their day-to-day activities, managers keep in mind the outcomes their organization is trying to achieve."[16]

As implementation of GPRA has made clear:

> Even the best performance information is of limited value if it is not used to identify performance gaps, set improvement goals, and improve results. . .[S]uccessful organizations recognize that it is not enough just to measure outcomes. Instead, they must also assess the main processes that produce the products and services that lead to outcomes. Such organizations typically assess which steps or activities of a process are the most costly, consume the most labor resources, and take the most time to complete. By analyzing the gap between where they are and where they need to be to achieve desired outcomes, management can target those processes that are in most need of improvement, set realistic improvement goals, and select an appropriate process improvement technique.[17]

As can be seen, a crucial element of performance management is, indeed, establishing and reporting the desired goals and outcomes so that gaps in performance can be identified and rectified. There should be monitoring, reporting, evaluation and feedback within the Fleet Boston fair housing planning process, with program modifications flowing therefrom as appropriate. An appropriate feedback loop is illustrated in Figure 2.[18]

\15\ *Id.*, at 25.

\16\ *Id.*

\17\ Johnny C. Finch (Assistant Comptroller General) and Christopher Hoenig (Director, Information Resource Management/Policies and Issues). (June 20, 1995). ***Managing for Results: Critical Actions for Measuring Performance***, at 9, testimony before the U.S. House Subcommittee on Government Management, Information and Technology, Committee on Government Reform and Oversight.

\18\ This analysis does not set forth proposed objectives and performance indicators since establishing those objectives and indicators is an essential step in the program planning process. Fleet Boston, in cooperation with the local fair housing community, should develop both the objectives and the performance indicators.

CONCLUSIONS AND SUMMARY

Based upon the above discussion, the following conclusions are appropriate:

1. Fair housing lending requires more than simply avoiding discrimination. It involves seeking to eliminate the effects of any fair housing impediments outside the lender's control and to eliminate any identified impediments within the control of the lender.

2. Two major credit needs have been identified for Boston's suburban community. The first major credit need in the suburban community, as relevant from the perspective of this report, involves the promotion of socio-economic diversity. The second major credit need in the suburban community, as relevant for purposes of this report, involves the promotion of racial and ethnic diversification.

3. The data confirm that Boston's suburban community frequently lacks a greater socio-economic diversity because of the lack of affordable housing. Something more, however, stands as a barrier to socio-economic diversification. Even when and where affordable homeownership units exist, they are not being purchased by households at lower incomes. To meet the needs of diversifying the suburbs, specific proactive steps are necessary.

4. The lack of a supply of affordable housing units is not the only barrier to socio-economic diversity in Boston's suburban communities. The data from the ten study communities used for this analysis show a lack of diversification even when controlling for income (as measured by percent of median income). Merely because units may be affordable to households of color does not mean that households of color are becoming homeowners in these suburban communities. By definition, the price of housing is not the limiting factor in this analysis. Something more than the mere unaffordability of homeownership is creating barriers to suburban homeownership for households of color.

5. Based on the above conclusions, it is appropriate to impose as a condition of this merger, the requirement that Fleet Boston commit to working with the greater Boston fair housing community to develop, by the end of Calendar Year 2000, a Plan of Action to promote the diversification of the suburbs. This Plan would include a stated goal; supported by quantifiable, verifiable short-term (1-year; 3-year) and long-term (5-year) objectives; a

written work plan in furtherance of accomplishing the objectives, including an overall strategy and implementing tasks; an evaluation mechanism to determine performance relative to the stated objectives; and a review mechanism charged with utilizing the evaluation to formulate recommendations on modifications, as needed, to the Plan of Action should the objectives not be achieved.

BACKGROUND OF PERSON PROVIDING COMMENTS

Roger Colton is a member of the Belmont (MA) Fair Housing Committee (a committee of local government) and the Belmont Housing Partnership. Colton is also a member of the Advisory Committee of the Fair Housing Center of Greater Boston.

An attorney and an economist, Colton is a principal in the research and consulting firm of Fisher, Sheehan and Colton, Public Finance and General Economics (FSC). FSC has prepared fair housing analysis of impediments studies for local governments. In addition, Colton is a member of the national *LIHEAP Advisory Committee on Managing for Results*, for the U.S. Department of Health and Human Services, Administration on Children and Families (HHS/ACF), charged with developing outcome-based performance standards for the federal Low-Income Home Energy Assistance Program (LIHEAP). Under contract to the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA), Colton prepared an *ex ante* performance review of OSHA's proposed standard to control the occupational exposure of workers to tuberculosis in homeless shelters.

FIGURE 1: BASIC PROGRAM PLANNING STEPS

1. Articulate the program goal

The program goal is the ultimate end-in-view resulting from the program.

Illustration: To maintain better contacts within one's family.

2. Establish one or more program objective(s)

Program objectives are to be both attainable and measurable. It is against program objectives that program performance is subsequently measured.

Illustration: To be home for holidays.

3. Identify the strategy through which to accomplish the objective(s)

The "strategy" of a program is the overall direction in which the program intends to move.

Illustration: To acquire frequent flyer miles to fund airplane tickets for holiday trips home.

4. Identify one or more tactics through which to implement the strategy

Program "tactics" are the specific action steps through which a strategy is implemented. Tactics are those program elements which would be included in a work plan. A program may, and likely will, have multiple tactics to implement the strategy.

Illustration: To limit all business trips solely to a single airline to increase the accumulation of frequent flyer miles.

FIGURE 1: BASIC PROGRAM PLANNING STEPS

5. Measure program performance

Measuring performance involves measuring outcomes, a process that differs from measuring either outputs or activities. Neither output measures nor activity measures contribute to a determination of whether a program objective is being met. Accomplishment of an objective can only be measured through an analysis of program outcomes.

Illustration (outcome measure): Was I home for New Years Day, Labor Day, Fathers Day?

Illustration (activity measure): Did I fly all my business trips on one airline?

Illustration (output measure): Did I accumulate sufficient frequent flyer miles to fund a trip home for the holidays?

6. Evaluate program performance in light of the program objectives

Program performance should be measured relative to the program objective. This involves creating a feedback loop. The feedback loop provides the planner with the ability to determine if the objective was met, and if not, what changes need to be made to improve performance.

Illustration (flawed strategy): I flew enough business trips on one airline to accumulate sufficient miles for an airline ticket, but my home town does not have an airport.

Remedy (change strategy): To dedicate one week of vacation per year to be home for Christmas.

Illustration (flawed tactic design): I flew 100% of my business trips on one airline, but I took only three business trips.

Remedy (change tactics): To purchase all business supplies using a credit card offering frequent flyer miles.

Illustration (flawed tactic implementation): I flew enough business trips on one airline to accumulate sufficient miles for an airline ticket, but the airline on which I took all my business trips does not fly to my home town.

Remedy (improve implementation): To change airline on which I fly business trips.

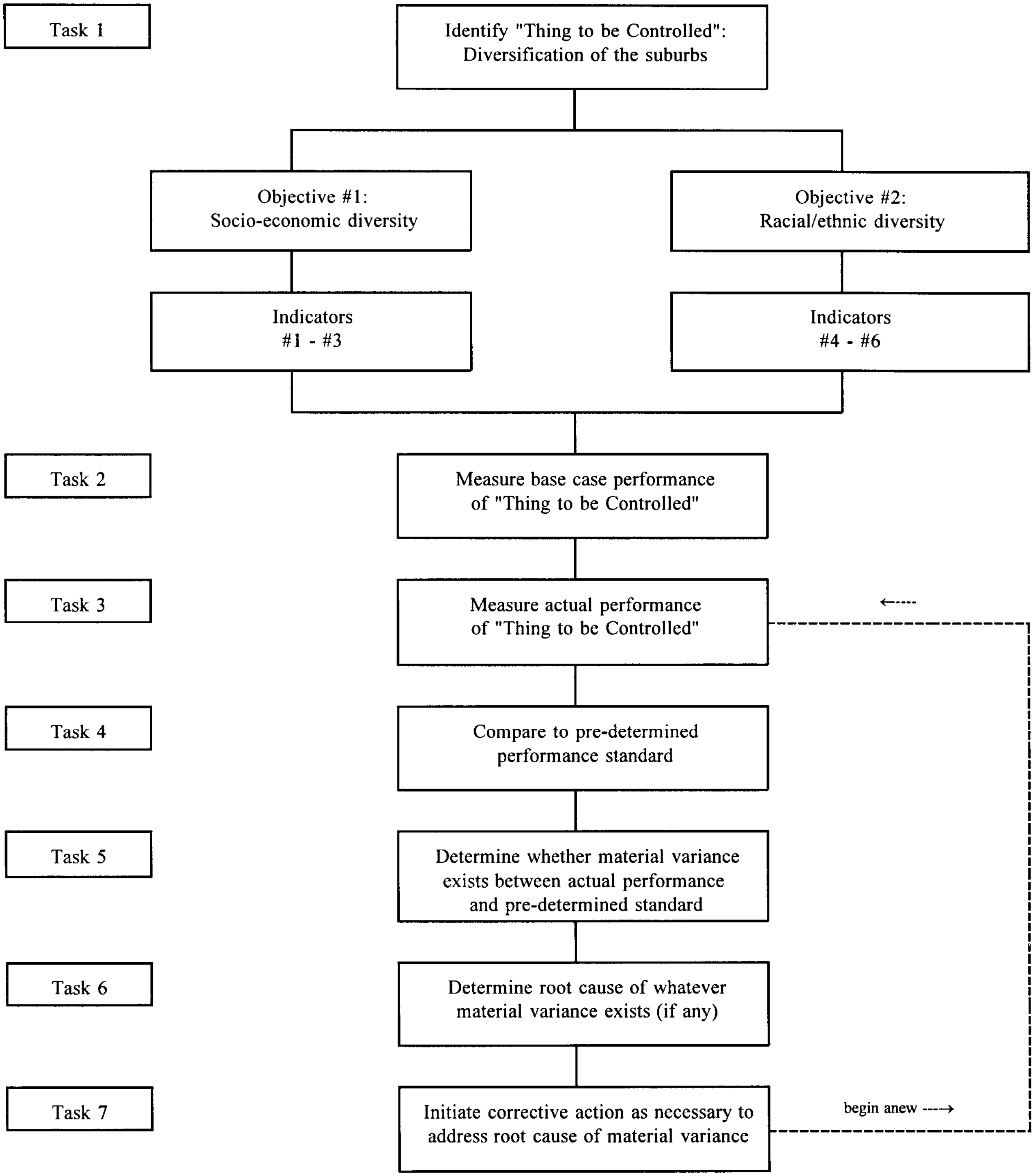


FIGURE 2: USE OF PERFORMANCE INDICATORS IN EVALUATING PROGRAM PERFORMANCE

South End Neighborhood Action Program

South End Neighborhood Service Center of ABCD
554 Columbus Avenue Boston MA 02118-1116
Phone: (617) 267-7400 Fax: (617) 536-8678

July 6, 1999

Robert M. Brady, Vice President
Federal Reserve Bank of Boston
P.O. Box #2076
Boston, MA 02106-2076

BY FACSIMILE AND MAIL

Dear Mr. Brady,

I appreciate the opportunity to present comments at the public meeting regarding the proposal by Fleet Financial Group, Inc. to merge with BankBoston Corporation. I understand that I shall be on a panel from 6:30 - 7:00 P.M. on July 7th.

Attached is a copy of my comments.

Sincerely,

Pat Cusick
Executive Director

cc. Senator Dianne Wilkerson
Robert M. Coard, President & CEO, ABCD

Comments for the Public Meeting by the Federal Reserve Bank
on the Proposed Fleet Financial Group/BankBoston Merger.
Presented by Pat Cusick, Executive Director, SNAP

My name is Pat Cusick, the Executive Director of the South End Neighborhood Action Program (SNAP) and, for the record, I reside at 521 Shawmut Avenue in Boston.

My focus is, principally, on the area of home loans and mortgages. The access to home ownership is more than shelter, more than a stabilizing force for families, more than neighborhood revitalization. Fundamentally, homeownership in the minority and low income community (LMI) is the sinking of roots in communities which have few roots and therefore are vulnerable. A portion of my neighborhood, Lower Roxbury has less than 5% homeownership, which is the least amount in the city of Boston. We need an increase in the amount of home loans and mortgages.

However, the amount which the merged bank intends to extend in home loans and mortgages, $4.0 billion, leads us to assume that in this area, "1+1" does not equal "2" as vaunted by the two bank CEO's, but "1+1" probably equals "1" or less than "1."

In a recent Boston Herald column about the Fleet/BankBoston merger, Beth Healy wrote "Say goodbye to banking with a soul". We trust that's not the case, because we are convinced that banking with a soul is a profitable business. We know that the long-term wealth of financial institutions depends on the health of the communities they serve. We believe that the banks that will grow, thrive and become national institutions are builders. and not parasites. Great banks are builders of cities and cultivators of community.

The city-building that banks do is not just a matter of building <u>up</u>—building skyscrapers and megaplexes. Effective city-builders cultivate the <u>roots</u> of community as well. This is a banking role that is particularly critical to Boston and to its neighborhoods.

The long history of economic disenfranchisement in our low-income neighborhoods has left us, in all too many cases, without the networks of property and financial resources our more affluent neighbors take for granted. We are communities with great strengths of history and kinship, but with weak economic roots. Our families and neighborhoods can be torn apart and scattered by economic forces—such as gentrification and the end of rent control.

What we need most from our banking partners is the chance for each family to put down strong roots of ownership, entrepreneurship and local citizenship, which weave together to build positive futures for the whole community. <u>Banks can help grow roots in communities which have no roots.</u>

What, specifically, does this mean to us as we look at the Fleet/BankBoston merger?

The Background Trends in Boston

When we look at lending patterns in Greater Boston from 1990 to 1997, using the data assembled by UMass/Boston Economics Professor James Campden, we see good news and bad news.

Overall Mortgage Lending Data in Boston

With the strong housing market, denial rates for whites, blacks and Latinos in Boston have dropped over 35% between 1990 and 1997. Denial rates in Boston for minorities and low-income applicants are also lower compared to nationwide denial rates.

However, denial rates for blacks and Latinos have begun to rise in the last two to three years. For Latinos, the percentage of loans (out of all Boston home purchases) fell to 5.9% in 1997, after a high of 7.2% in 1996. (Latinos made up 8.1% of the city's households in 1990.) For blacks, the percentage fell for the third year in a row to 14.7% in 1997, after a high of 20.8% in 1994. (Blacks made up 20.6% of Boston households in 1990.) Meanwhile, lending to white homebuyers rose from 68.5% in 1996 to 71.6% in 1997

Much of the problem is linked to escalating housing costs which hinder many prospective first-time home buyers. James Campden: "The single most important reason for these numbers is that Latinos and African Americans have lower incomes, and housing in the Boston area is more and more expensive. So a big issue is affordability."

Lending Data by Types of Lenders

These data indicate that the large banks in Boston (Fleet, BankBoston, Citizens, Boston Safe Deposit) have a much stronger lending record with minorities, compared to small banks/credit unions and mortgage companies. However, the large banks are losing market share.

The large Boston banks made 29.4% of all of their home loans to blacks, compared to 9.5% by mortgage companies and 7.3% by small banks/credit unions. The large banks made 12.1% of their loans to Latinos, while only 3.2% of mortgage company loans and 4% of other bank loans were made to Latinos.

Much of this disparity is due to the fact that many large banks have specialized loan programs, run by non-profit groups, to target minority and low-income borrowers. Banks also have a greater presence in low-income neighborhoods through branch networks, as well as the pressure of meeting Community Reinvestment Act regulations.

However, the large banks have lost significant market share to mortgage companies. Mortgage companies not affiliated with banks or credit unions made a record 54.2% of loans in the area in 1997, compared to 23.5% in 1990. Meanwhile, the large banks captured only 25.1% of all loans in 1997, compared to 43.6% in 1995. (In 1995, the large Boston banks also included BayBanks and Shawmut.)

Much of the growth in mortgage company market share can be attributed to national mortgage companies entering the Boston market and sending mass mailings, according to Julie Connelly, V.P. of Community Relations for Citizens Bank.

Community Experience with the Principals

While Boston has had a very mixed experience overall in the past seven years, we find cause for concern in the records of the merging institutions.

Fleet's record in providing access to homeownership is troubling. For example, Fleet Real Estate Funding's conventional home purchase lending shows major disparaties in denial rates in cities across the country. In the Boston area, the company denied 26% of applications from African Americans and 29 % from Latinos, compared to 11% for whites.

Fleet's record in making financial services affordable is also problematic. In 1996, Fleet settled discrimination charges with the US Department of Justice that it systematically overcharged minorities in its two New York area mortgage offices. In Georgia, Fleet Finance used "bird dog" salespeople to target up to 18,000 Georgians for high-rate mortgages , many of which led, predictably, to foreclosure. In 1997, in the New York area, Fleet Home Equity USA denied every home improvement loan application it received from Latino homeowners. We must do much better than this.

Given these concerns and the background of critical issues in Boston, what do we ask of our banking partners?

First, we need mortgage lending which allows families to stay in their own neighborhood-and to invest in their neighborhood.

Second, we need home equity and home improvement lending programs which help ensure that the family homestead can be passed on to the next generation.

Third, we need small business lending that helps ensure that neighborhoods can sustain their local infrastructure, while local entrepreneurs are encouraged to continue investing their own blood, sweat and tears in their communities.

Fourth, we need a local banking presence in which bank employees look like the people in our neighborhoods and are hired from our neighborhoods-with a helping hand in the area of training or education, if need be.

We are concerned about this merger because the records of the parties give us pause. We have seen other mergers in which our communities lost out-for example, it has been reported recently that in the last two major bank mergers in Boston, home loan lending dropped by up to 50%. Our only protection is to work out an agreement with Fleet/Boston, which is verifiable and whose essence in accountability. And, of course, the agreement must be signed. I would not be furnished any transactions with my bank without my signature. The community must have a signed agreement.

TESTIMONY TO THE FEDERAL RESERVE BANK BY DAVID HARRIS, EXECUTIVE DIRECTOR OF THE FAIR HOUSING CENTER OF GREATER BOSTON REGARDING THE FLEET/BANKBOSTON MERGER, JULY 7, 1999

My name is David Harris and I am the Executive Director of the Fair Housing Center of Greater Boston. The Center is a membership organization promoting equal housing opportunities for all people throughout the greater Boston metropolitan area. Our service area includes the 150-plus cities and towns in Eastern Massachusetts and our activities center around advocacy, education, enforcement and legislation. We join others who have expressed concerns about the impact the proposed new bank will have on the fulfillment of our mission. While many of the discriminatory practices associated with Fleet may have occurred outside of Massachusetts, they betray an institutional culture which placed profit above all else, including trust and reputation, and conformance with fair housing laws. The Federal Reserve Bank must consider the kind of corporate citizen a new entity will become and, where such consideration raises questions, place specific requirements on any approval it grants.

We are among the 100-plus groups with whom the banks so proudly boast of meeting. While our meeting was cordial and the discussion open, we were distressed by the suggestion that we return at the end of the year to explore specific fair housing issues *after* the merger is complete and the new entity has consolidated. Given the history of housing discrimination in this country and Fleet's chapter in that history, a firm, public and detailed commitment to fair housing must precede and not follow a merger.

The banks have widely publicized their 14.6 billion dollar commitment "to the community." We would like to expand the conversation to a broader notion of community. The Center holds that fair housing is a regional concern which demands local attention. The cities and towns in our service area vary greatly in terms of household income and housing mix Others today have discussed specific Community Reinvestment Act-inspired activities. Most of these are, appropriately, targeted at persons and communities of low to moderate income. Obviously, the new entity must make substantial and measurable commitment to serving these needs. But our scope goes beyond the CRA formula *as a baseline* and we believe the Federal Reserve Bank must look beyond that horizon as well. We know, for example, that with certain glaring exceptions, most cities and towns in the region remain predominantly white. We have analyzed 1990 census household income data which reveal that the populations of color in the vast majority of cities and towns fall far short of what would be expected based on income alone. It is no accident that these are also the more affluent communities. The result is that the typical CRA-driven approach to "community" *ignores most of the communities in the region.*

Data published by the Massachusetts Community and Banking Council in its report, *Changing Patterns V: Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-1997*, underscore our concerns.. In addition to analyzing mortgage lending in the City of Boston, the study looked at two "rings" of communities outside the city. The study found that the share of loans received by blacks and Latinos fell between 1995 and 1997 and that the denial rates for blacks and Latinos exceed those of whites. Moreover, loans in the suburban rings were concentrated in several towns with a large number of low to median income census tracts, many of which have relatively large black and Latino populations.

While data for individual banks are not reported, Fleet and BankBoston are included among the category of "large banks" who, according to the report, "accounted for a significantly larger share of loans to each of the traditionally underserved categories than they did of overall lending in each of the geographic areas considered." Though the data are aggregated and merit more detailed analysis, we surmise that the focus of these two banks – as well as other "large banks" -- is on the low-to-moderate income segment. But what of those people of color who seek homes in other communities? Who is serving them? Clearly it is possible that people of color are choosing not to apply for mortgages in every city and town. Indeed, these same data show that the large banks wrote relatively more mortgages to African Americans who are not low-to-moderate income in Milton and Randolph.

These residential patterns may all be a matter of choice or they may also constitute a subtle form of steering. Both may be true. Or these patterns may reflect the failure of banks and other institutions involved in housing provision to take steps to affirmatively further fair housing. The new entity must take a leadership role in identifying impediments to fair housing in its market area. This goes beyond LMI. To be sure, affordability is an issue and no one is suggesting the banks make bad loans or convince people to get in over their heads. On the other hand if a careful analysis indicates, as national data on wealth differentials between races suggest, that people of color have sufficient income but lack the accumulated wealth for certain housing markets, a bank may institute programs specifically designed to help such buyers create the necessary wealth.

The Federal Reserve Bank should require the new entity to announce specific actions to affirmatively further fair lending in the metropolitan-wide area. The first such action must be a comprehensive review of the two banks' policies, practices and procedures to identify possible impediments to fair housing, the results of which review will be made available to the public. This review should be conducted by internal and external analysts and analyze impediments within the lender's control as well as more general impediments in the market.

The Federal Reserve Bank should require the new entity to develop, by the end of calendar year 2,000, a *Plan of Action* to increase lending to persons of color and other protected classes throughout the region (rather than merely within LMI census tracts). This Plan will include: quantifiable, verifiable short-term and long-term objectives; a written work plan to accomplish the objectives; and a review mechanism, including both internal and external experts charged with evaluating performance and formulating recommendations for modifications to the *Plan*. The new entity should include qualified fair housing organizations among its resources for meeting both requirements. Where no such organization exists, as is the case in Providence, for example, the new entity should take a leadership role in creating such an organization.

The real cost of our proposal is firm and measurable commitment, but the benefit is a step toward credibility. A new entity with this particular history must take a leadership role, must do more than others; indeed, must set the pace for others. We are not so naïve as to think any business can take credibility alone "to the bank"; but what should be clear from the testimony today is that no business can hope to succeed without it. In terms of actual dollar costs, they are largely internal and will enhance performance. Moreover, any such costs pale by comparison to other commitments already made by the banks *and* to the costs of litigation and settlement of successful discrimination claims.

The practice of effective fair housing is, or certainly should be, a basic element of good banking. Basic, but not simple. The practice requires lasting institutional commitment driven by honest and ongoing self-criticism. Effective practice does not occur in isolation, but is, by nature, cooperative and open. It depends upon developing and maintaining internal mechanisms as well as partnerships with external organizations across institutional lines – from public officials to non-profit agencies, from insurers to realtors. Of course creating these partnerships requires a basic element sorely missing from the proposal you are considering: trust.

The Fair Housing Center will certainly be watching and, where indicated, investigating. But the Center is also available to assist in designing and implementing an affirmative fair lending strategy.

TRINITY CHURCH
IN THE CITY OF BOSTON

July 7, 1999

To: The Federal Reserve Bank of Boston
From: Rev. William Barnwell of the Greater Boston Interfaith Organization (GBIO)

GBIO is a large and active social reform organization consisting of about seventy-five faith communities, ten community development corporations, and five other community groups, across race, class, denomination, and geographic lines. Over four thousand people attended our founding assembly last November.

I am here today to represent our organization, which has made affordable housing, especially for low-income people, its top priority. After many small group meetings my church, Trinity Episcopal Church, Copley Square, decided to make affordable housing our top outreach concern as well.

We at GBIO and at Trinity Church believe that if we are not able to make housing available to all of our citizens, we will quickly become a one-class city, forcing most of our church members and other low to moderate income people into the distant suburbs. Not only would that make life extremely difficult for those persons, it would also have the effect of greatly diminishing the diversity of the city that we cherish so much.

Specifically, GBIO urges that you approve the merger only if these conditions are met:

Copley Square Boston, Massachusetts 02116 Telephone: 617-536-0944 Facsimile: 617-536-8916

1. That you require a detailed written and signed reinvestment agreement. The idea that such an agreement not be signed is unthinkable to us and we believe should be unthinkable to banks that rely entirely on signed agreements with their customers.

2. That the merger result in at least the same amount of benefits to low income areas that both banks have offered before the merger.

3. That Fleet Bank convert its obligation for a loan pool to the Massachusetts Housing Partnership into an affordable housing grant (equity conversion). Here Fleet would be following the model of the Bank of Boston when they merged with Bay Bank. By our calculations, thirty to sixty million dollars would be available for affordable housing grants. This we believe would help many more low to moderate income families buy their homes or rent than a small reduction in interest payments would allow.

4. That Fleet Bank and BankBoston meet their commitments to the soft second mortgages programs that they made to the community on May 12th at Roxbury Community College in the amount of about one hundred million dollars.

5. That the new bank extend the soft second mortgages to other parts of the state.

6. That low to moderate income neighborhoods continue to have nearby branches of the new bank and that none be closed or sold unless two of the old banks were in the same immediate neighborhood.

William Barnwell

MassAlliance
FIFTH ANNIVERSARY

AT THE CENTER OF SMALL BUSINESS DEVELOPMENT

Massachusetts Alliance for Small Contractors, Inc
Bruce C. Bolling ◆ Executive Director

PUBLIC MEETING REGARDING THE PROPOSED MERGER OF FLEET FINANCIAL GROUP, INC. AND BANKBOSTON CORPORATION

BRUCE C. BOLLING, EXECUTIVE DIRECTOR
MASSACHUSETTS ALLIANCE FOR SMALL CONTRACTORS, INC.

Testimony before the Federal Reserve Bank of Boston

July 7, 1999

145 South Street, Sixth Floor, Boston, Massachusetts 02111 ◆ Phone (617)556-2350 ◆ Fax (617) 574-9003 ◆ E-mail: MAalliance@aol.com

Massachusetts Alliance for Small Contractors, Inc
Bruce C. Bolling ◆ Executive Director

MASSACHUSETTS ALLIANCE FOR SMALL CONTRACTORS, INC.

INTRODUCTION

The Massachusetts Alliance for Small Contractors, Inc. (MassAlliance) is a non-profit corporation that provides business-development and capacity-building services to small, minority, and women-owned business enterprises (M/WBEs). MassAlliance helps M/WBEs acquire the financial resources, technical capabilities, and management skills needed to successfully compete for projects in the construction industry, including:

- Bonding approval
- Credit worthiness
- Management and accounting systems
- Technical expertise
- Estimating capacity
- Project experience

Business Development Support Services Program

MassAlliance's BDSSP program provides technical assistance and support to M/WBE's through one-on-one management and technical consulting services. We also assist M/WBE with the financing, tax, and insurance issues many contractors face while managing the growth of their companies. These services are provided by construction contracting industry experts, including engineers, estimators, project managers, lawyers, and accountants. These expert consultants provide our clients with a wide range of experience in the construction industry. This expertise includes:

- Construction management services
- Operational management
- Estimating
- Construction financing
- Tax and accounting
- Construction law
- Credit capital services

145 South Street, Sixth Floor, Boston, Massachusetts 02111 ◆ Phone (617)556-2350 ◆ Fax (617) 574-9003 ◆ E-mail: MAalliance@aol.com

To date, more than 350 companies have benefited from one or more of MassAlliance's wide range of technical assistance and capacity-building services.

Education & Training Program

MassAlliance's E&T program presents skill development courses in construction management, as well as business seminars and technical assistance workshops to assist M/WBEs to conduct business more effectively.

We have provided education and training services to 1,753 participants from 490 companies. The E&T program allows contractors to acquire the skills and techniques necessary to compete in the construction marketplace. MassAlliance's instructors represent a wide cross-section of the New England construction industry and are all experts in construction and construction-related fields. Their practical, hands-on experience provides a real-world approach to the E&T programs and course offerings.

The BDSSP and E&T programs work hand in hand to develop technical assistance programs and education and training course offerings that best meet the needs of our clients.

MassAlliance
FIFTH ANNIVERSARY

AT THE CENTER OF SMALL BUSINESS DEVELOPMENT

Massachusetts Alliance for Small Contractors, Inc
Bruce C. Bolling ◆ Executive Director

PUBLIC MEETING REGARDING THE PROPOSED MERGER OF FLEET FINANCIAL GROUP, INC. AND BANKBOSTON CORPORATION
BRUCE C. BOLLING, EXECUTIVE DIRECTOR
MASSACHUSETTS ALLIANCE FOR SMALL CONTRACTORS, INC.

Testimony before the Federal Reserve Bank of Boston

SUMMARY OF FINDINGS

- It is estimated that the commonwealth of Massachusetts, through its various subdivisions and agencies, will spend $3B a year on construction projects during the next 5 years, excluding municipal and private construction/development.

- Most projects will be awarded to prime and general contractors who in turn will assume a management role and will subcontract most of the work to small contractors creating tremendous business opportunities. They will require the small contractor to bond and finance labor, material, and capital expenditures.

- Undercapitalized small contractors will struggle and in many instances, be unable to finance new projects because of their traditional cash flow problems. Adding to the dilemma has been the inflexibility of traditional financing models to stimulate company growth.

- The construction industry is a mature industry with low margins requiring large capital investments and high concentration of sales in one project. Financial characteristics of small contractors are:

  - Small contractors are undercapitalized from inception due to lack of personal wealth and interest from investors
  - Contractors experience slow collection of accounts receivable
  - 5% of their revenue is retained until completion of the project
  - Due to the low margins of some projects, just slightly higher than the retainage amount of their revenue, a great portion of the profit is carried in the balance sheet as accounts receivable
  - Working capital needs are financed by stretching out vendors as long as possible, jeopardizing business relationships
  - Historically, there has been a lack of funding sources to finance capital expenditures and working capital

145 South Street, Sixth Floor, Boston, Massachusetts 02111 ◆ Phone (617)556-2350 ◆ Fax (617) 574-9003 ◆ E-mail: MAalliance@aol.com

- Lack of collateral base either in the business or personally
- It is very difficult and it takes years for a small contractor to internally finance growth under the above circumstances, if at all.

In summary, small contractors had to start their businesses undercapitalized, resulting in long-standing liquidity problems that substantially remain today. We welcome the opportunity to work with you and meet this challenge together to create a new lending model which will result in a family of financial products designed to promote **investment in equity and working capital financing** for small contractors.

The following report was prepared for the internal use of MassAlliance. Given the subject matter of our meeting today, I would like to share with you our findings.

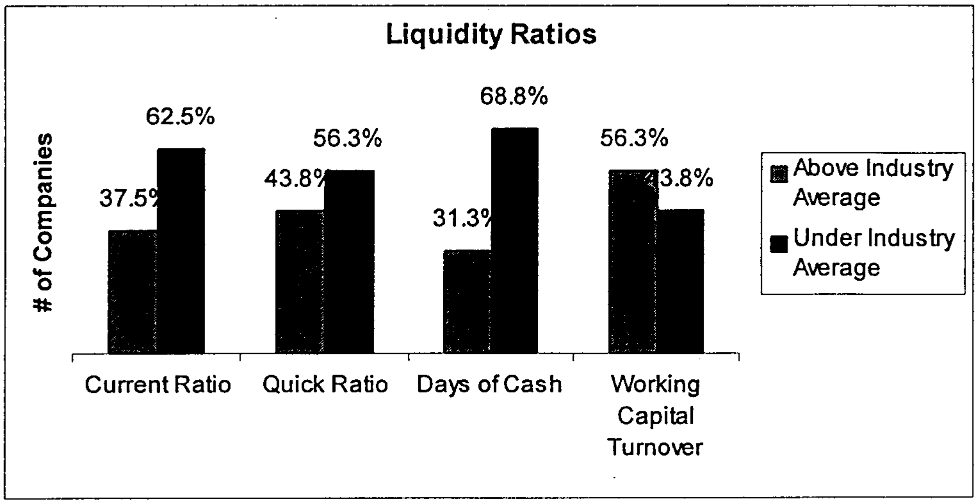
Objective

The objective of this analysis is to evaluate and profile the financial position of the companies actively receiving services from the Mass Alliance to determine trends, common characteristics, and strong and weak points. The findings will allow MassAlliance to maximize the delivery of the various programs offered and will assist in the design of new programs.

Findings

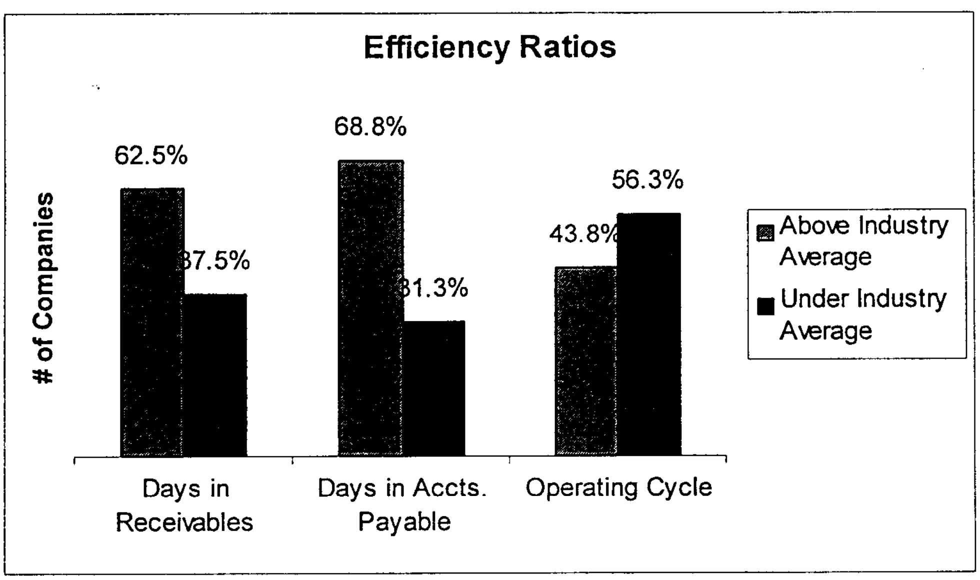
The main financial obstacle that small contractors are experiencing is undercapitalization resulting in high leverage ratios and lack of liquidity.

Liquidity reflects the ability of a company to cover its current obligations. Liquidity is measured by several ratios, i.e., current ratio, a high ratio depicts high liquidity. Assets that are readily available to convert to cash (highly marketable investments, accounts receivable, etc.) are more desirable since it allows the company to pay its obligation as they come due. The following chart compares the liquidity ratios of our clients to the industry standards (industry standards reflect the results of an annual survey conducted by the Construction Financial Management Association by SIC #):



In all the ratios in the previous chart, more than 50% of the participants in our study rated worse than the industry. To understand some of the reasons causing this situation we should start with the high percentage of companies having very low Days of Cash as shown in the above chart. This means they have below normal cash reserves and depend on the timely collection of receivables to meet their obligations.

The following chart provides us with a comparison of the accounts receivable balance as compared to sales and the accounts payable balance as compared to cost of goods sold. One hidden factor in the accounts receivable numbers is the retainage of 5% that is required in public projects. Payment of the retainage is not available until the end of the project. For some small contractors that perform their work at the front end of the project, the waiting period can be over a year or two. Further analysis of the retainage balance for specific companies reveals that in some cases it represents as much as 20% of the outstanding accounts receivable balance.



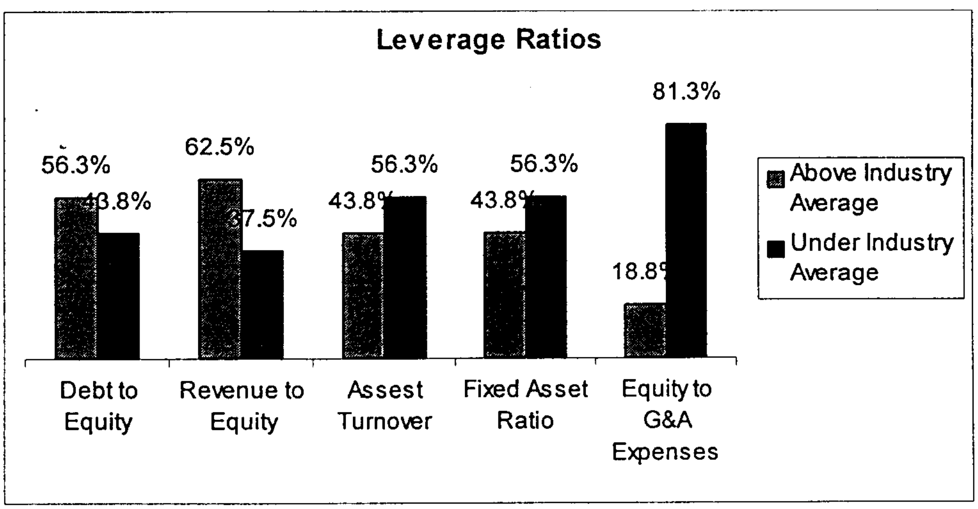
More than 60% of our clients are slower than their peers and competitors, in collecting their receivables and paying their vendors. The disparity with industry is more dramatic when compared to the individual companies. The ratios in Table I below are from a company that has been in business for more than 10 years and with sales close to $5.7MM.

Table I

	Client # 1	Industry Average	Difference
Days in Receivables	114.2	65.2	75.2%
Days in Accts. Payable	107.7	30.9	248.5%
Operating Cycle	24.2	55.1	-56.1%

The above company is not atypical or unique to the client pool of Mass Alliance. In this case, one can see that vendors are financing most of the short-term needs of the company. The gap between collecting receivables and paying their vendors is only 7 days (114.2 days to 107.7days). In other words, vendors' balances are being extended as much as possible to finance the slow collections of payables. This gap is so short that the company is in danger of missing a vendor payment. The long Days in Accounts Payables is a result of the higher than normal accounts payable balances which affects negatively the debt equity ratio.

Compounding this situation is the undercapitalization typical in small businesses. The following chart shows how our clients as a group fare against the industry:



Leverage ratios are a measurement that traditional funding entities use to determine the relationship between resources and owners. This ratio is used to assess the financial risk of a company and to structure loans accordingly. Our group of companies rated lower than industry standard in almost every leverage ratio.

Evidence of the undercapitalization of our clients is the combination of lower Debt to Equity Ratio, Revenue to Equity Ratio and Equity to G&A expense Ratio than industry standards. To determine how low they are let us examine the example in the next table. Again the company selected is the same as in Table I is a well-established business with sales of $5.7MM.

Table II

	Client # 1	Industry Average	Difference
Debt to Equity	2.5	1.6	56.5%
Revenue to Equity	7.3	7.3	0%
Asset Turnover	2.1	2.5	-16.2%
Fixed Asset Ratio	6.5%	18.2%	-64.3%
Equity to G&A Expenses	1.4	1.4	0%

This company carries 56.5% more debt than its peers in relation to its capital base. Thus, carrying more financial risk than a typical company in the same line of business. Also, its assets are producing 16.2% less sales per dollar than the industry. In this case the Equity to G&A Expense, an indication of the coverage of overhead by equity, is in line with industry standards, must probably due to a lack of infrastructure found in companies of the same size. In our analysis, 81% of the companies' Equity to G& A ratio are under industry standard (see leverage ratio chart above). In many cases we found this ratio to be less than 1, that is, the G&A expense is higher than the entire equity of the company. This low coverage of G&A expenses is alarming when one considers the fact that in many cases these companies are not well staffed and the infrastructure is substandard. Please refer to analysis by company attached to the report for further detail.

One last important point regarding the undercapitalization of small businesses. There are two ways to increase capital in a company: internally and externally. The internal way to raise the capital investment in a company is through the accumulation of earnings. The composite Net Profit Margin for the industry is less than 2%. For the various SIC codes examined in our analysis we noted a similar Net Profit Margin. With the high retainage balances (5% of the billings) and thin margins (2% or less) small contractors can not convert their earnings into cash quickly, instead the profits remain on the balance sheet in the form of accounts receivable. Retainage is not paid until the project is completed, that may take more than one year. Hence, financing growth with internal funds is very difficult.

External forms of financing, outside investors, partners and others are not plentiful to our clients. Due to the financial factors discussed above, the type of industry (matured) low growth, with a high concentration of sales in one project, thin returns, etc., capital money is almost out of reach to our client base.

Methodology

- We requested the 1997 financial statements and the SIC # of all companies receiving services from Mass Alliance.
- Financial ratios for each respondent were computed
- We matched each respondent to the SIC # by size of the Construction Financial Management Association industry survey
- We compared the ratios we computed to those reported by CFMA
- We determined if the significant ratios were over or under the industry average.