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Panel 5

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Testimony before the Board of Governors of the Federal Reserve on the Proposed Merger between Wells Fargo and Norwest Corporation

Prepared Testimony of Ms. Sharon H. Lee
Executive Boardmember
Washington Reinvestment Alliance
(written statement)

Thursday, Sept. 17, 1998

Summary of Testimony

The Washington Reinvestment Alliance (WRA) supports a conditional approval of acquisition of Wells Fargo and Co. by Norwest Corp., based on the unsatisfactory performance of Norwest's operating subsidiary, Norwest Mortgage, in meeting the needs of low-income homebuyers in Washington state. The acquisition should be approved conditional to the merged company seeking to resolve Norwest Mortgage's poor mortgage default record with a greater training and technical assistance commitment, and establish a target on single-family low- and moderate-income customers that reflects the combined banks enlarged market share.

Text of Testimony

Honorable Governors of the Federal Reserve:

The Washington Reinvestment Alliance (WRA) offers testimony regarding the merger of Wells Fargo and Norwest Mortgage. The WRA is concerned that Norwest's poor record of mortgage lending to low- and moderate-income communities within Washington state will result in this merger's negative effect on these communities.

Wells Fargo's presence in Washington has been marked by honest efforts to expand services to low- and moderate-income communities. In 1996, when Wells Fargo acquired the Washington branches of First Interstate Bank, they attempted too quickly to change the locally-based culture of First Interstate's lending and corporate giving arrangements. This rupture in corporate cultures, combined with mishaps in customer service related to the acquisition, caused Wells Fargo's new customers to withdraw twelve to fifteen percent of their deposits from the bank. Despite this loss in anticipated market share, the bank has made some progress in community reinvestment performance. Wells made contact with the WRA to discuss the merger's impact on community reinvestment in the state. In addition, Wells has made investments and contributions that First Interstate had previously avoided. The bank has concentrated on corporate giving and investments for community economic development, with such groups as Cascadia Revolving Loan Fund and Seattle Jobs Initiative benefiting from their investments program.

Norwest Mortgage's performance has not been so praiseworthy. While this operating subsidiary of Norwest Corp. enjoys the largest market share of any mortgage lender in Washington, it has made no special efforts to help low- and moderate-income communities. Besides a small grant for the homebuilding organization Habitat for Humanity, the company makes no contributions within the state. Unlike its mortgage branches in states with Norwest Bank branches, Norwest does not widely offer mortgage products to Washington borrowers that help the bank earn credit under the CRA. In 1997, the company made 50 percent more Downpayment Assistance Program (DAP) loans in South Dakota - where it originated at least six times fewer loans to low- and moderate-income borrowers - than in Washington. Low- and moderate-income borrowers in Washington could greatly benefit from a greater number of DAP loans.

Analysis conducted by the Fremont Public Association (FPA), a HUD-certified agency that provides mortgage default counseling based in Seattle, shows that Norwest's default rate is much higher than area lenders in proportion with its market share. In 1996, Washington Mutual originated 6.15 percent of HMDA-reported loans to low- and moderate-income census tracts in the Seattle-Bellevue-Everett metropolitan statistical area (MSA). Washington Mutual accounts for only 5.5% of FPA's client caseload, putting that bank nearly on par with its market share. Of Washington Mutual's troubled borrowers, the FPA was successful in helping these clients bring the loan current or negotiate a repayment 82 percent of the time. Norwest Mortgage, with a market share of five percent of loans originated to low- and moderate-income census tracts in the same area, accounted for ten percent of FPA's caseload. The FPA was successful in helping to save the home only 30 percent of the time. This data shows that Norwest's clients, at least in the Seattle area, run a higher risk of defaulting on their loans.

Norwest has also been a difficult lender to work with on servicing issues. In one instance, the FPA had a client with multiple health problems. She was forgetful and difficult to work with. Certain Norwest staff refused to take her calls, so the FPA stepped in to advocate on her behalf. FPA counselors had to speak with no less than six Norwest staff, and had to make no less than ten calls to sort out the issue. The end result was positive, but it was difficult the whole way through.

Norwest's inconsistent service is replicated on a statewide level. Norwest originated 2,223 FHA-insured mortgage loans in the Spokane jurisdiction in FY 1997, ranking second in the number of FHA loans made. Yet Norwest's default rate on these loans was higher than 12 of the 24 lenders surveyed. In Seattle, the record is worse: Norwest Mortgage ranked 34th out of 43 lenders in loss mitigation performance. The bank is the largest mortgage lender in the state, and it uses FHA insurance - public money provided by HUD - to cover its losses very frequently. Based on these facts, the WRA can only conclude that Norwest is using its giant market share and its plentiful supply of HUD-insured mortgages to originate loans without supporting its low- and moderate-income borrowers.

In sum, the WRA has indications that Norwest Mortgage has had a significant, negative impact on low- and moderate income communities protected under the Community Reinvestment Act. To ensure that mortgage lending becomes more supportive of the community in the wake of the merger, the WRA recommends the following measures be taken by the combined company:

- Lending officers employed at Norwest Mortgage's Washington state branches receive training to provide more customer-centered servicing of their loans, including specific training in preparing loss mitigation plans in cooperation with borrowers at risk of mortgage default.
- The combined company make a significant lending target on single-family home loans to low- and moderate-income individuals and census tracts and minority homebuyers. This commitment should anticipate the larger share of customers that currently receive home loans through Wells Fargo.
- The combined company contribute $1.25 million to home pre-purchase and mortgage default counseling agencies over the next five years.

Thank you for your kind consideration of these comments.

Sincerely,

Sharon H. Lee
for the Washington
Reinvestment Alliance