Panel 7

(DANA WISE United Steelworkers of America
1:30 panel)

My name is Dana Wise. I do bank research for the Strategic Projects Department of the United Steelworkers of America.

I am also a member of a community-based coalition of non-profit housing and community developers in New Mexico. And as part of that coalition, I was party to the development of a ~~com~~ $1.3 billion community lending initiative recently announced by Norwest and Wells Fargo.

The Steelworker's Union praises this and the recent CA commitment for increased lending to working families and their communities.

Wells Fargo has questioned our motives and involvement in pushing for this review of their treatment of working families and their communities. ~~The Union's response is that~~ Wells Fargo should not underestimate the Union's commitment to defend the interests and needs of its members, their families, and their communities.

The Steelworkers' union has more than 700,000 members nationwide. Our members are part of families, and these families are part of communities that pay taxes that support our country's financial system. Our members are also part of communities that make deposits at Wells Fargo. It is the Union's duty to ensure that these resources are used in a manner that promotes decent, living wage jobs, affordable housing, and community economic development.

The Union will continue to work hard to support the efforts of allies here in Minnesota, in Iowa, Wisconsin, Texas, Washington, and Los Angeles to improve the performance of Wells Fargo in serving the best interests of working families and their neighborhoods.

Last month, we published our research on the recent community lending performance of Wells Fargo. We have

shared this research broadly with CRA advocates, local government officials, and the media.

The research on Wells Fargo showed a bank hungry for fees from retail consumers; a bank that was especially unfocused on serving the needs of its primary service area — especially low-income areas and rural areas; and a bank that promotes high-tech marketing over traditional banking, even when it appears that these methods make the bank less able to serve low-income and minority communities. (I am speaking here of Wells Fargo's public commitments that it is leaving rural communities; its heavy reliance on borrower-profiling databases for its small business lending; and its heavy reliance on the Internet for the delivery of financial services.)

Among our principal findings were:

* Over the past three years, following the take over of First Interstate by Wells Fargo, in a majority of cities and towns where Wells Fargo pursued its branch consolidation and re-structuring, these changes negatively affected low-income, Hispanic, and other minority communities

* Wells Fargo closed a disproportionate number of branches in non-metropolitan areas, and

* In 70% of counties where Wells Fargo made small business loans, the Bank failed to match its competitors in its relative level of service to low-income communities.

Wells Fargo's primary response has been to question the appropriateness of a union showing concern about a banks' lending to low + moderate-income families. Predictably, Wells Fargo also challenged the study's methodology, but it's clear from their response that they never bothered to read past the

executive summary. The Union stands by the findings of its study and we ask that this document be included as part of the written record of this meeting.

Furthermore, we urge Wells Fargo to get to work with community-based fair lending and CRA coalitions in the 19 other states that will be impacted by this merger. Wells Fargo must agree to address the charges that the Bank's practices hurt the working families and their communities. The Union will join its resources with those of its allies in the community development movement and those of the 13.2 million-member AFL-CIO to bring Wells Fargo to justice. Until that happens, the AFL-CIO has asked its 73 international unions, their 30,000 local unions and individual members in every state to close any institutional or personal accounts they have with Wells Fargo. AFL-CIO President John Sweeney said, "Our resolve in this matter will send a clear signal not only to Wells Fargo, but to other banks that would use our own deposits against working families and our unions."

Panel 7

Inner City Press/Community on the Move
&
Inner City Public Interest Law Center

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FACSIMILE TRANSMITTAL FORM

TO: JoAnne Lewellen and staff (see note below, thanks)

RE: TESTIMONY OF INNER CITY PRESS/COMMUNITY ON THE MOVE AND INNER CITY PUBLIC INTEREST LAW CENTER IN OPPOSITION TO THE APPLICATIONS OF NORWEST CORP TO ACQUIRE WELLS FARGO & ITS SUBSIDIARIES

FOR SEPTEMBER 17, 1998

FROM: Matthew Lee, Esq., Executive Director **DATE:** September 16-17, 1998

# of Pages: This transmittal sheet; 5-page testimony = 6

NOTE:

I have been unable to travel to Minneapolis on 9/17. Marv Kamp of the Wisconsin Rural Development Center has agreed to read the attached testimony into the record. I have e-mailed it to Marv in Wisconsin, but in case it did not reach him in time, could you please give a copy of this to Mr. Kamp (he will appear on your agenda) before 1:30 p.m. on 9/17?

Thank you very much.

--Matthew Lee

Inner City Press
Community on the Move
&
Inner City Public Interest Law Center

TESTIMONY OF MATTHEW LEE, INNER CITY PRESS/COMMUNITY ON THE MOVE AND INNER CITY PUBLIC INTEREST LAW CENTER IN OPPOSITION TO THE APPLICATIONS OF NORWEST CORPORATION TO ACQUIRE WELLS FARGO & ITS SUBSIDIARIES

FEDERAL RESERVE BANK OF MINNEAPOLIS
SEPTEMBER 17, 1998

Good afternoon, Ms. Smith and other members of the panel. This is the testimony of Matthew Lee, Executive Director of Inner City Press/Community on the Move and of the Inner City Public Interest Law Center (together, "ICP"), which Marv Kamp of the Wisconsin Rural Development Center has been kind enough to present. ICP on August 21 filed a protest to this application, based on Norwest's disparate lending record, particularly of its high interest rate, so-called "subprime" subsidiaries, and based on the Federal Reserve Board's withholding of all information about Norwest's divestiture proposal. The commitments that Wells Fargo has made in California does nothing to address these issues.

Norwest, the applicant here, is one of the largest mortgage lenders in the country. The disparities in its mortgage lending record are troubling, particularly but not only in the overlap markets. Some examples:

1919 Washington Avenue, Bronx, New York 10457 TEL: (718) 716-3540; FAX: (718) 716-3161

--In 1996, Norwest Bank Texas South, NA denied 46% of applications from Hispanics, and only 7% of applications from whites, for a denial rate disparity of 6.57-to-1.

--Norwest Bank Texas Midland, NA denied 61% of applications from Hispanics, and only 13% of applications from whites, for a denial rate disparity of 4.69 -to-1.

--Norwest Bank Tx Kelly Field denied 49% of applications from Hispanics, and only 14% of applications from whites, for a denial rate disparity of 3.5-to-1.

--Norwest Bank Tx San Antonio denied 50% of applications from African Americans, 43% of applications from Hispanics, and only 18% of applications from whites.

--Norwest Bank Texas, NA denied 46% of application from African Americans, 40% of applications from Hispanics, and only 19% of applications from whites.

--Norwest Bank Texas Waco, NA denied 60% of applications from Hispanics, and only 20% of applications from whites.

When ICP raised these Norwest issues in 1996, when Norwest was acquiring Prudential Home Mortgage, Norwest responded with a letter, dated April 30, 1996, to Mr. James Lyon of this Federal Reserve Bank of Minneapolis, in which Norwest acknowledged that, quote, "Norwest Mortgage's (NMI) record of minority lending is... below market averages in some markets... To address the needs of markets with high concentrations of minority populations, Norwest Mortgage has committed to hiring of Community Development loan officers to focus on the underserved communities... our plan for each of the markets is... New York: 74," unquote.

Here, however, was Norwest Mortgage's full year 1996 lending record in the New York City MSA:

	Originations	Market Share	Denials	Denial Rate	Disparity
Whites	1218	2.69%	291	17%	--
Blacks	120	1.03%	90	37%	2.18
Hisp.	95	1.65%	40	25%	1.47

In MSA for full-year 1996, Norwest Mortgage had more than twice the market share of loans to whites than to African Americans, as well as a denial rate disparity for African Americans significantly above the industry average in this MSA. It cannot be said that NMI's denial rate disparity is explained or justified by greater than average outreach to minorities, given the market share numbers. Question: did NMI ever take the steps it said it would in its April 30, 1996 letter to the Federal Reserve? Was this ever followed up on? Neither Norwest's Application, nor the Federal Reserve's questions to date, address this in any detail. Similarly, were Norwest's representations about improving Prudential Home Mortgage's lending disparities every followed up on? Our experience is: No.

Norwest Funding, Inc. nationwide in 1996 made 6,521 loans to whites, and only 228 loans to African Americans, and only 252 loans to Hispanics. In the NYC MSA in 1996, Norwest Funding made 101 loans to whites, only 10 loans to African Americans, and only 8 loans to Hispanics.

Meanwhile, in the predominantly minority South Bronx of New York City, Norwest has opened an office of its high interest rate Island Finance subsidiary. ICP members here have been informed that Norwest's Island

Finance office charges virtually all borrowers for personal loans 25% interest, the absolute maximum under New York usury prohibitions. Borrowers (virtually all of them protected classes) are charged 25% regardless of their credit histories.

Norwest is engaged in "subprime" lending nationwide. *See, for example*, Heather Timmons' article, Norwest Unit a Player in Subprime Lending; Wells at Home in Prime, in the American Banker of June 17, 1998: "Norwest Financial, with more than $9 billion of assets... is one of the largest bank-owned finance units, rivaled only by NationsCredit...". All of these issues should be inquired into, and acted on, by the Board in this proceeding. The Board increasingly refuses to consider, much less examine, finance company subsidiaries of BHCs, (mis-) using as a yardstick the reported assets of the finance company compared with the bank subsidiaries. That will no do, here: "**Norwest Financial**... pulled in $269 million of net earnings in 1996, **almost 20% of the parent companies earning for the year**." Same source, emphasis added. ICP is explicitly asking the FRB to view Norwest Financial in EARNINGS context, rather than simply by assets.

The public has also been denied access to information crucial to assessing and commenting on this proposal: Norwest has sought confidential treatment for all information specifying its divestiture proposal. The public has a right to review and comment on Norwest's actual proposal, including its divestiture proposal. ICP filed a Freedom of Information Act appeal on August 21, 1998; the information has yet to be released.

The choice of Minneapolis as the venue of this public meeting is difficult for ICP to understand, and appears inconsistent with several prior Board precedents. It would appears that the rationale for the selection of Minneapolis as the site of the public meeting is based on the fact that Norwest has to date been supervised by the FRB of Minneapolis. But Banc One has been supervised by the FRB of Cleveland, and the FRB held its Banc One-First Chicago public meeting in Chicago.

And so it might seem that the rationale is that Minneapolis would lose a BHC headquarters if this proposal were approved. But, if and when Banc One and First Chicago consummate their proposed merger, Columbus, Ohio will lose a BHC headquarters. Nevertheless, the Board held its Banc One-First Chicago public meeting in Chicago.

One solution would have been -- and still should be -- to hold more than one public meeting -- as was done on Wells Fargo-Interstate, for example, and on Fleet - Shawmut (public meetings in Boston, Hartford and Albany). The latter two of those three Fleet-Shamwut meeting show that the FRS is not constrained to only hold public meetings in cities where it has a Reserve Bank.

On the current record, this mega-merger proposal, which would expand Norwest's practices, could not legitimately be approved. There are other adverse issues, including Norwest's record in its existing states, ably raised by the Wisconsin Rural Development Center and others. For all the reasons stated, this proposed merger should be denied. Thank you for your attention; we will be submitting further written comments by September 24, 1998. Thank you.

Hello, I am Jasper Gallardo. I am here from Pueblo Co. on behalf of USWofAm, Local Union 3267. I appreciate the opportunity of testifying today. I would like to voice my objections to the Merger of Norwest & Wells Fargo & introduce you in a personal manner, to my struggle, and the personal nature in which my Union brother & sisters are being affected by the refusal of Oregon Steel Mill, to bargain in good faith with our union and allowing us to return to work

A few months prior to CF&I forcing us out on strike Oct 3, 1997 I purchased a small hotel in a town 35 miles west of Pueblo. I planned to refurbish it and have it ready to open by Dec 1997 The main purpose in undergoing this project was a means of supplementing what will be a meager retirement income. To get it up & running & well established before my retirement. The building now sits empty, except for one room in the back of the hotel. that I occupy. Because of the mortgage payments on this empty building, I am forced to live in extremely uncomfortable conditions, after 32 years with one company, I'm only one step above the homeless.

Winter 1997 began with the strike Oct 3, 1997 and the denial of Unemployment Compensation. After being out of work a month ½, I accepted a position with a telemarketing firm where I earned a whopping $6.00 per hour. Working for this wage, I knew I could make the mortgage pmt, put gas in my car to drive the 35 miles back & forth to work, but all other expenses would have to be kept to a minimum

2.

I knew I could not afford to fire up the boiler to this 6000 sq ft building so I attempted to survive the winter using 2 space heater and once a week, I would turn on the Confection oven in the "kitchen" & prepare enough food for an entire week, then just reheating in the microwave: all an attempt to keep my expenses down.

+ ~~I stayed at the telemarketing firm approx 6 months.~~ I worked on a ~~c/c line~~ ~~one duty was activating~~ cards I had so many calls

I thought I was home free. Thought I had made it through the winter with my space heaters when one night in late February I arrived home and, it was dark of course, when I opened the door I stepped in water up to my ankles. I thought I had all the pipes upstairs turned off and drained, but the old plumbing had played a terrible trick on me. Water was pouring through the ceiling in the lobby. Now I had more to do to the building and no money, no hope of being able to qualify for another loan to do any construction and no place to turn to.

Another winter is coming up and I am going to be in the same predicament that I was last year. No money to fire up the boiler, no way to get out of this situation that I am in. Eventhough interest rates have dropped to almost 2% below what my mortgage is set at, I can't qualify to refinance my loan which if I could, would drop my payments by quite a bit.

Many of my Union Brothers and Sisters are going through at least as desperate a situation as I am, and some have it much worse. One of our Union Brothers took his own life at the beginning of summer. That rocked all of us; thinking that we saw this Brother several times a week, and didn't realize what pain he was in. He had lost his wife to cancer 10 months earlier and that is when we worried about him. He was in his early middle years, had no children at home and his whole life evolved around his wife, but he made it through those months and now we lost him.

I know personally of couples going through a divorce that before this work stoppage, seemed to have a very stable marriages. Quite a few of our brothers and sisters have had to find work in other cities and are now trying to support two households on top of being separated from their families at least during the week and many of them are not close enough to come home on weekends.

There are so many problems brought on by this Company's refusal to bargain in good faith and although the Company has suffered a tremendous loss and continues to lose money daily, much to our dismay, Wells Fargo Bank, and other smaller banks, continue to bankroll CF&I. The longer this practice continues we feel the longer CF&I will remain in a position to keep us off our jobs. This is a Union town, the economy of this community was built around CF&I. Many of our local banks worked with our union brothers and sisters on their personal loans or mortgage payments, allowing them to pay only the interest in some instances, and in others giving them deferred payments. As far as I can determine, Norwest Bank did not offer any leniency for any type of payments. A bank has an obligation to help the communities they move into. I cannot even imagine Wells Fargo being a part of this community after turning their backs on the union workers to help finance CF&I in their efforts to break our union and what is worse is, eventhough they know how it is affecting our people, they continue this practice.

On behalf of the memberships of Locals 2102 and 3267 I want to thank you for listening to me and God Bless You.

Panel 7

REMARKS OF MARY ROSENTHAL

MINNESOTA STATE DIRECTOR, AFL-CIO

BOARD OF GOVERNORS OF THE FEDERAL RESERVE HEARING ON THE WELLS-FARGO/NORWEST MERGER

Good ~~morning~~ afternoon, my name is Mary Rosenthal, I am the Minnesota State Director for the AFL-CIO. Thank you for this opportunity to testify. The AFL-CIO's member unions represent [400,000] thousand working people here in Minnesota, and hundreds of thousands more within Norwest's service area. This is a region of farms and small towns, highly vulnerable to capital draining by distant financial institutions.

The Wells-Fargo Norwest merger is the takeover of a regional giant with a poor record of serving working people by a giant national bank with a worse record. Wells-Fargo's merger with Norwest will pass control of our region's largest financial institution to a West Coast bank that by its nature and as a result of the business strategies it has chosen to pursue cannot be focused on the financial services needs of our communities.

Wells-Fargo is 181st out of the top 200 U.S. financial institutions in its

reinvestment rate in the primary service area communities from which it takes deposits. A study by our affiliate, the United Steelworkers of America, has shown that Wells Fargo's definition of its service areas in the Southwest has excluded lower income census tracts. Wells-Fargo's loan origination and management program is database and Internet driven, with a decreasing emphasis on loan officers who know the communities in which they lend.

On the consumer side, Wells-Fargo is a leader in charging high fees for basic banking services and in closing branches in low income communities.

Norwest's service area includes a variety of communities vulnerable to the withdrawal of financial services— large cities with substantial low and moderate income communities like Minneapolis-St. Paul and Denver, where Norwest's record has already been poor, smaller towns and rural areas dependent on agriculture that have been repeatedly devastated by commercial banks' withdrawal from the agricultural credit markets, and areas of extreme rural poverty like the Pine Ridge Indian Reservation in South Dakota. Norwest's record in these communities has already been the subject of prior protests by AFL-CIO affiliates to the Board of Governors

For all these communities, this merger promises more expensive and less accessible financial services. In fact, even before the merger has been approved, Norwest appears to be raising a variety of fees to match levels at Wells-Fargo. This merger also promises to create more towns like Pueblo, Colorado, where Wells-Fargo has financed a savage campaign to break the Steelworkers union at Oregon Steel— a campaign that has illegally denied a thousand people the middle class jobs that were a foundation of that community's economic strength. Wells-Fargo claims this is somehow not an issue affecting its treatment of its service area. We think it exemplifies Wells-Fargo's outright hostility to the needs of working families— as consumers of financial services and as contributors to the economic well-being of the bank's service area.

We oppose this merger because it will not benefit the working families of this region, and because we believe Wells-Fargo has not complied with the Community Reinvestment Act in its current service area.

Finally, we urge the Federal Reserve not to accept empty assurances from Wells Fargo. Wells-Fargo has a history of mischaracterizing the impact of its merger activity on its constituencies. When Wells-Fargo acquired First

Interstate it announced it would destroy "only" 7,200 jobs, and then after the deal was done Wells-Fargo said it would really be 10,000 jobs, and then it turned out it was really 14,000 jobs— almost twice what they told regulators and the public when they were getting approval for the merger.

The AFL-CIO would be pleased to work with the Federal Reserve in its further consideration of this merger to ensure the Community Investment Act is complied with and the interests of the working families in both banks' service areas are protected. Thank you.

Dana Wise
Panel 7

Shortchanging Our Neighborhoods

A Study of the Recent Community Lending Performance of Wells Fargo

The United Steelworkers of America, AFL-CIO CLC
Five Gateway Center
Pittsburgh, Pennsylvania 15222

August 1998

Acknowledgements

The United Steelworkers of America gratefully acknowledges the assistance of Dana Wise, who served as the principal author of this report.

Mr. Wise is a Doctoral Candidate in Economic Geography at Johns Hopkins University, who has written various articles and reports on community lending and economic and racial discrimination in mortgage lending for the Economic Policy Institute, the Albuquerque Community Reinvestment and Development Taskforce, *Shelterforce*, and *Planners Network*.

Questions, comments or requests for additional copies of this report may be directed to Cary Burnell, Technician, Pattern Bargaining and Strategic Projects Department, United Steelworkers of America, Five Gateway Center, Pittsburgh Pennsylvania 15222, 412-562-2420, email: cburnell@uswa.org.

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Executive Summary

The financial industry in the United States is undergoing enormous change. There were over 700 bank and thrift institutions mergers in 1997, according to the Federal Deposit Insurance Corporation (FDIC). During the last six months alone, four bank mega-mergers have been announced involving eight of the nation's largest financial institutions, including the recently proposed combination of Wells Fargo and Norwest

There is great concern that the changes underway in the financial services industry may be quite detrimental to working families, and to low-income and minority neighborhoods, making credit and services more difficult to access and expensive.

Among the largest bank mergers in the last several years was the merger of Wells Fargo with First Interstate Bancorp in April 1996. Wells Fargo's performance since its acquisition of First Interstate provides troubling evidence of Wells Fargo's lack of commitment to low and middle income families and minority communities. This is of particular concern given Wells Fargo's impending merger with Norwest.

As the Bank's own press release following the merger announcement said: "if the merger is approved, the resulting company would rank first in the number of financial services stores in the nation." One of the questions that must be addressed in the context of the merger is whether the proposed consolidation will lead to an extension of Wells Fargo's weak performance to an institution which will be the largest originator of home mortgages and the 7th largest bank in the United States, with $191 billion in assets and branches in 21 states.

This report looks at Wells Fargo's performance in the area of community lending and its compliance with the Community Reinvestment Act (CRA) over the period from 1996 to 1998. The CRA is the federal law which encourages banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound lending practices.

An analysis of the information publicly available on Wells Fargo shows the following patterns of unequal services and lending:

- Wells Fargo closed or sold all of its branches in 129 localities following the 1996 take-over of First Interstate (the period between June 30, 1996 and March 27, 1998), resulting in declining services for low-income neighborhoods and rural communities;

- Wells Fargo ranked 181st out of the largest 200 lenders in its commitment to its CRA assessment areas (i.e. the communities from which it takes deposits). The Bank reported that only 68% of its small business loans and 81% of the dollar amount were within its assessment areas nationally.

- Wells Fargo failed to match its competitors in serving lower-income areas. The Bank's market share in higher-income census tracts was greater than its market share in lower-income census tracts in 69% of the counties where it made loans.

- Wells Fargo branch relocations reduced the level of service to "non-White" residents in 198 localities, compared to positive changes for "non-White" residents in just 179 localities. For Hispanics residents, the Bank's branch relocations resulted in reduced access to service in 200 localities, compared to improvements in just 175 localities;

- Wells Fargo increased its level of service to higher-income neighborhoods or reduced its level of service to lower-income neighborhoods, in 206 of 372 localities which exhibited changes;

- Wells Fargo's self-designated service area, the area for which the bank must report community lending data for its evaluation under the CRA, appears highly irregular.

- The apparently arbitrary exclusion of census tracts from its primary service area may signify that the Bank is excluding areas with lower incomes and a higher percentage of minority residents. These exclusions could lead to an inflated CRA evaluation if not corrected by examiners.

- While California provided 73% of Wells Fargo's total deposits in June 1997, the state received only 48% of the Bank's total number of small business and small farm loans in 1996.

Taken together, these findings raise important questions about Wells Fargo's compliance with the Community Reinvestment Act. Examiners who are currently evaluating the Bank's past performance—and considering its application to merge with Norwest – should intensify their oversight of the Bank's lending practices and branch closure history.

The findings also suggest that strengthened oversight and enforcement of the CRA will be necessary to ensure that people of color, low-income people and people living in rural areas have access to financial services.

According to the Public Interest Research Group's 1997 study of access to retail financial services, more than 12 million households in the U.S. cannot afford retail financial services. (Mierzwinski, 1997) Literally hundreds of banking studies have also showed large disparities in the rate of lending across social groups and geographies. (Federal Reserve Bank of Boston, 1989; Hula, 1991; O'BRIEN, 1998; Schlay, 1988; Thomas, 1998)

If these trends continue, the forces driving the consolidation and deregulation in the financial services industry will result in fewer and fewer Americans being able to obtain and afford retail financial services and credit.

Shortchanging Our Neighborhoods

The Recent Community Lending Performance of Wells Fargo Bank

Introduction

The financial industry in the United States is undergoing enormous change. There were over 700 bank and thrift institutions mergers in 1997, according to the Federal Deposit Insurance Corporation (FDIC). During the last six months alone, four bank mega-mergers have been announced involving Citicorp and Travelers Group, NationsBank and Bank of America, Banc One and First Chicago NBD, and Wells Fargo and Norwest

There is great concern that the changes underway in the financial services industry may make credit and services more difficult to access and expensive for working families, low-income neighborhoods, minority neighborhoods and rural areas.

According to the Public Interest Research Group's 1997 study of access to retail financial services, more than 12 million households in the U.S. already cannot afford retail financial services. (Mierzwinski, 1997) These numbers may increase with further consolidation in the banking industry.

Among the largest bank mergers in the last several years was the merger of Wells Fargo with First Interstate Bancorp in April 1996. Wells Fargo's performance since its acquisition of First Interstate provides troubling evidence of Wells Fargo's lack of commitment to low and middle income families and minority communities.

This is of particular concern given Wells Fargo's impending $31.4 billion merger with Norwest. If approved, the merger will create the nation's 7th largest bank, with $191 million in assets, 20 million customers, 90,000 employees, and 2,860 bank branches. Based on Wells Fargo's past performance, the merger may actually have a negative impact on services and the availability of credit to low-income and minority communities.

This report looks at Wells Fargo's performance in the area of community lending and its compliance with the Community Reinvestment Act (CRA) over the period from 1996 to 1998. The CRA is the federal law which encourages banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods, consistent with safe and sound lending practices.

Brief Background on Wells Fargo

Wells Fargo: the 10th Largest Bank in the United States

At the end of 1997, Wells Fargo was the tenth largest bank in the United States, with approximately 10 million customers, $97.5 billion in assets and $65.7 billion in loans. The bank has 956 traditional branches, 523 in-store branches, 377 banking centers, and 4,400 ATM's in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah and Washington.

In April 1996, Wells Fargo acquired First Interstate Bancorp for $11.3 billion. However, the Bank had enormous problems integrating First Interstate's operations and suffered a serious decline in its customer base, which the Bank has struggled to rebuild. In this drive, the Bank has suffered from poor employee relations, following management's pressure to make up for the bank's earlier customer losses by adopting a hard-sell approach to potential customers. (Cruz, 1998; Ferraro, 1997; Wahl, 1997)

While staffing levels were 16% below year-ago levels, helping to lower salary costs by $8 million during the third quarter of 1997, *these savings were more than offset by an increase in incentive compensation.* (Alex Brown, 1997)

Wells Fargo Increases Fees to Offset Losses from Merger

The Bank has compensated for the loss of its customer base following the well-publicized problems with its merger with First Interstate by raising its fees for retail services – despite the "efficiencies" promised by the merger. (1998c; Authers, 1998; Knight-Ridder Tribune Business News, 1998; San Francisco Chronicle; Schwanhausser, 1998; Wahl, 1997)

Credit card membership and other credit card fees grew by 96% to $227 million in 1997. Shared ATM network fees grew by 65% during the year to $168 million, and charges and fees on loans, which excludes yield-related loan fees, grew by 24%.

As a result, non-interest income (i.e. income from customer fees and surcharges) increased 66% in 1996 and 23% in 1997 to $2.7 billion. According to the Bank's annual report, "(a) significant portion of the increase was due to higher credit card and ATM fees reflecting an industry trend toward increased fees."(Wells Fargo, 1998)

Roughly 40% of Wells Fargo's total revenues are from non-interest income, compared to an average of 30% percent in the industry. This puts Wells significantly ahead of the trend toward profits from fee-based services.

Wells Fargo's Business Strategy Has Shifted Away from Customer Service to High Risk, High Return Credit Cards and Cost Cutting by Replacing Loan Officers with Computer-based Credit Scoring

According to Thomas Brown at Donaldson, Lufkin, & Jenrette, Wells' primary lending strategy has been to focus on higher risk loans, going after high-risk, high return credit card customers. The bank had "very high" loss rates. Wells' also offers pre-approved credit via the mail, which is essentially the same strategy applied to the small business market.(Streeter, 1998)

Wells Fargo has attempted to position itself as an aggressive, cost-cutting and technically efficient institution. "Bank mergers work in good part because they create huge, technologically driven savings in personnel costs. Wells has sought to adapt to the highly competitive financial services industry in part by attempting to replace people with computers." (Lubove, 1998)

Wells' fast-growing small business loan program is in part the product of sophisticated computer modeling of individuals most likely to be a "good credit risk." In so doing, Wells has sought to replace traditional loan officers with decisions made by a computer model of the borrower's credit behavior. Wells sees itself as a "pioneer" in "alternative delivery." (Alex Brown, 1997)

This emphasis on cost cutting, however, has also created customer relations problems for the Bank. While, "big institutions are certainly far more impersonal," Irvine Katz said in a recent report, "they're much more cost-driven, and many consumers get alienated by that." At the same time, however, "large-scale, global businesses (are) obviously well-served by this." (*Register Wire Service*, 1998)

Wells Fargo Branch Location Analysis

The Importance of Traditional Branches in Serving Community Needs

Following Wells Fargo's acquisition of First Interstate in 1996, the bank closed or sold 154 of its traditional "brick and mortar" branches in California and 175 in other states. An analysis using the best available data shows that these changes disparately impacted Hispanics, members of racial minority groups, and low-income people.

Surveys by the Federal Reserve and many industry observers point out the continuing importance of brick and mortar branches in providing the most complete range of services to customers. (Elliehausen & Wolken, 1992; Kwast, Starr-McCluer, & Wolken, 1997)

Although Wells Fargo has invested heavily in other banking "delivery systems" like ATMs, loans-by-mail, and its internet site, studies of consumer patterns show that access to loan officers, tellers, and customer service representatives are important to

small business owners and other customers. (Avery, Bostic, Calem, & Canner, 1997; Avery, Bostic, Calem, & Canner, 1998) Branches, unlike ATMs, are fee-free. And a recent federal study showed that Internet use by black and Hispanic households was only 19%, less than half the rate of use by white households (41%).

These "alternative service delivery systems" are not likely to help the Bank meet the spirit of the CRA. (Bridis, 1998) Even Norwest Bank officials agree that Wells Fargo's nontraditional branches are poor channels for mortgage lending. As the senior vice president of Norwest Mortgage acknowledged: "It's hard to do a mortgage transaction when you're standing next to the frozen food aisle." (La Monica, 1997)

The Methodology Used to Measure the Effect of Wells Fargo Branch Changes

To measure the impact of changes in Wells Fargo bank branches, the addresses of more than 2,000 Wells Fargo branches over the period from June 30, 1996 through March 1998 were matched with demographic information from the 1990 Census.1

For each branch, census tract data were used to estimate the percent Hispanic population, the percent "non-White" population, and the average per capita income of the population within a two-mile radius of each branch. (Two miles was the median distance between households and their checking depository institutions according to the Survey of Consumer Finances. (Kwast et al., 1997, p. 20)) Next, these demographic profiles of the population within two miles of each branch were grouped by locality2 and an average was taken to get a benchmark—or index—for each locality.

In other words, the benchmark represents an average of the demographic profile for all of the branches in a locality for each year. For each locality, the benchmark average of the branch neighborhood profiles was then compared to the benchmark average for subsequent years. Changes in this index for a particular locality from one year to the next signifies changes in the location of branches in that locality. Changes result from branch closures, the movement of branches from one address to another, the opening of branches, and/ or any combination of the three.

Data Suggest Wells Fargo Branches Moved Away from Hispanic, Non-White, and Low-Income Neighborhoods

As summarized in the three tables that follow, the data show that in a disturbing number of localities, Wells Fargo branches appear to have moved away from "Non-White," Hispanic, or lower income neighborhoods. The tables group localities according to the "direction" of impacts of the Wells Fargo branch changes. Impacts are designated as "negative," "neutral," or "positive."

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[1] See discussion of data sources below. Wells Fargo refused requests from the authors to provide an official list of branch addresses in a machine-readable format.

[2] "Locality" is the most local form of government jurisdiction—town, city, etc.

"Negative" changes were experienced in those localities in which Wells Fargo branches moved away from predominantly Hispanic, "Non-White", or low-income neighborhoods. This was either as a result of Wells closing branches in low-income or minority areas, and/or opening new ones in white or higher-income areas. This altered the overall demographic profile of neighborhoods served in a given locality.

Localities which saw no change in the demographic profile of neighborhoods containing Wells Fargo branches are designated as "neutral". "Positive" changes are attributed to those localities in which Wells Fargo branches on average moved to neighborhoods with a higher percentage of Hispanic, "Non-White," or lower-income people.

As Figure 1 shows, there were 19 more localities in which "Non-white" residents were adversely impacted than were benefited by Wells Fargo's branch relocations.

Figure 1 Number of Localities in Which Branch Relocations Resulted in a Change in the Percentage of Non-White Residents in the Branch Area, 1996-98

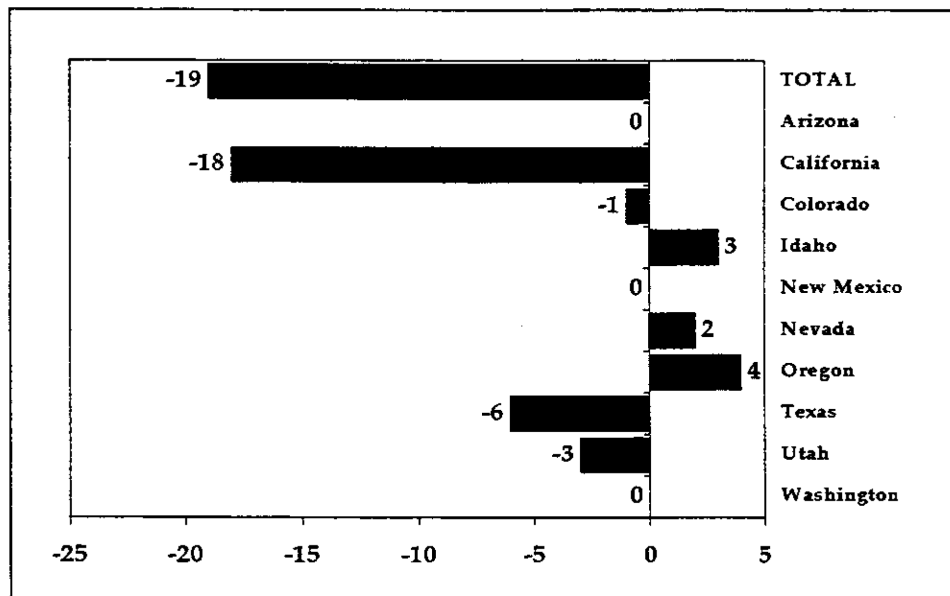


Table 1 presents the number of localities in each state and the "direction" of change in terms of neighborhoods served by Wells Fargo branches.

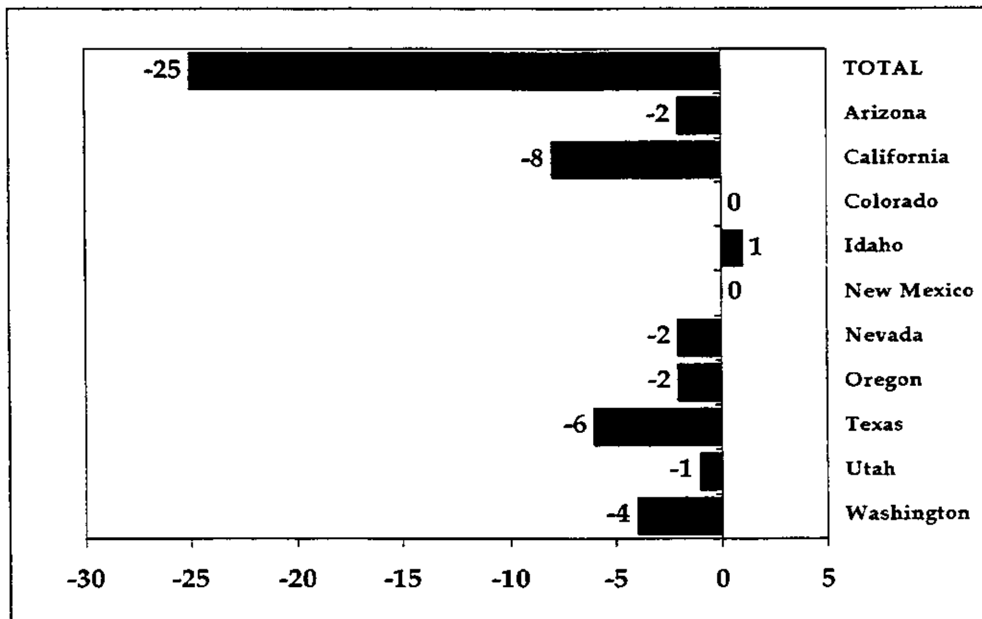
According to the data, Wells Fargo closed or sold all branches in 129 localities; and in 198 localities, Wells Fargo branches (and services) moved away from neighborhoods with a higher percentage of "Non-white" people. In other words, these branches served an increasingly White population. In 179 other localities, the data suggest that the level of service to "Non-white" racial groups increased.

Table 1 Number of Localities with Changes in Branch Demographic Indices, Non-White Residents as Percent of Total, 1996-1998

State	Number of Localities w/ Negative Changes	Number of Localities w/ No Changes	Number of Localities w/ Positive Changes	Net Number of Localities with Changes
AZ	14	6	14	0
CA	137	73	119	-18
CO	1	1		-1
ID	2	18	5	3
NM		1		0
NV	4	13	6	2
OR	10	44	14	4
TX	15	16	9	-6
UT	4	6	1	-3
WA	11	21	11	0
TOTAL	198	199	179	-19

Wells Fargo's branch changes also tended to negatively affect Hispanics in a majority of localities in the ten western states where Wells Fargo had its branches. As shown in Figure 2, there were 25 more localities in which Hispanic residents were adversely impacted than were benefited by Wells Fargo's branch relocactions.

Figure 2 Net Number of Localities in Which Branch Relocations Resulted in a Change in the Percentage of Hispanic Residents in the Branch Area, 1996-1998



This trend was evident in every state except New Mexico—where there were no branch closures—and Idaho. Overall, the percentage of Hispanics in the neighborhoods near branches fell in over 200 localities in which Wells Fargo closed, sold or relocated branches.

Table 2 Number of Localities with Changes in Branch Demographic Indices, Hispanic Residents as Percent of Total, 1996-1998

State	Number of Localities w/ Negative Changes	Number of Localities with No Changes	Number of Localities with Positive Changes	Net Number of Localities with Changes
AZ	15	6	13	-2
CA	132	73	124	-8
CO	1	1		
ID	3	18	4	1
NM		1		
NV	6	13	4	-2
OR	13	44	11	-2
TX	15	16	9	-6
UT	3	6	2	-1
WA	12	23	8	-4
TOTAL	200	201	175	-25

Wells Fargo branches, by and large, also moved away from lower-income neighborhoods. As shown in Figure 3, there were more instances than not where Wells Fargo's branches were relocated to areas with higher per capita income. This trend appeared strongest in California and Texas.

Figure 3 Net Number of Localities in Which Branch Relocations Resulted in a Change in the Per Capita Income of the Branch Area, 1996-1998

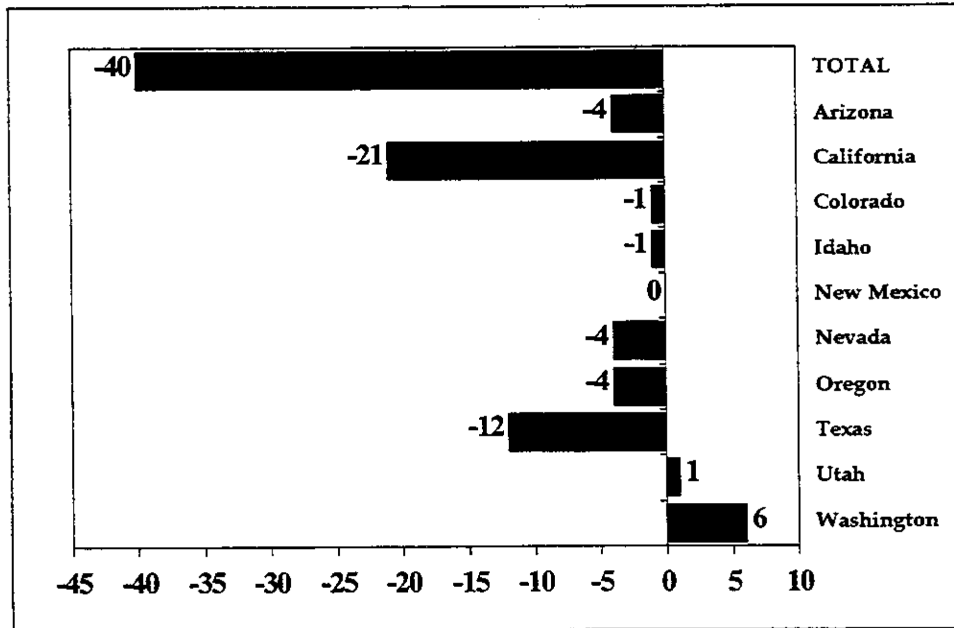


Table 3 Number of Localities with Changes in Branch Demographic Indices, Per Capital Income, 1996-98

State	Number of Localities With Negative Changes	Number of Localities With No Changes	Number of Localities With Positive Changes	Net Number of Localities with Changes
AZ	16	6	12	-4
CA	137	76	116	-21
CO	1	1		-1
ID	4	18	3	-1
NM		1		0
NV	7	13	3	-4
OR	14	44	10	-4
TX	18	16	6	-12
UT	2	6	3	1
WA	7	23	13	6
TOTAL	206	204	166	-40

In sum, the data suggest that Wells Fargo branch closings and openings on average tended to move the branches of the bank away from Hispanic and non-white neighborhoods and toward White and higher-income neighborhoods.

Impact of Wells Fargo Branch Relocations on Selected Localities

Wells Fargo's strategy of shifting branch locations is consistent with the long-range trend of banks to shut offices in low-income areas, even as the industry-wide total number of branches increases. (Avery et al., 1997/ p. 719-20) Selecting 25 localities as "worst-case" examples, the following table illustrates the changing demographics of the communities served by Wells Fargo's branches. In every one of the localities identified in the following table, the indices indicated a decline in the relative level of service to low-income neighborhoods, Hispanic neighborhoods, and 'minority' neighborhoods. The Bank either closed or sold branches in traditionally underserved neighborhoods, opened branches in neighborhoods with a lower percentage of these population groups, or shifted its branches toward higher-income, predominantly White neighborhoods.

For example, Wells Fargo reported a net gain in branches in Fort Worth and Dallas, Texas. But these new branches were in neighborhoods with higher incomes and lower minority and Hispanic populations than was the average for the Bank in those localities in previous years.

Table 4 Percent Change In Wells Fargo Branch Demographics By Locality

City & State	Percent Change in Hispanic Population	Percent Change in Non-white Population	Percent Change in Per-Capita Income
Indio, CA	-37.94%	-26.81%	67.90%
Tiburon, CA	-10.37%	-25.81%	111.25%
Banning, CA	-14.58%	-15.04%	26.49%
Fort Worth, TX	-5.57%	-14.66%	48.63%
Claremont, CA	-15.43%	-14.07%	46.87%
Glendale, AZ	-14.35%	-10.28%	18.26%
Alameda, CA	-7.51%	-10.03%	20.51%
Coronado, CA	-10.40%	-7.61%	13.94%
Santa Maria, CA	-9.19%	-7.53%	11.25%
Norwalk, CA	-4.27%	-7.16%	6.31%
Dallas, TX	-2.19%	-6.93%	8.85%
Merced, CA	-4.35%	-6.74%	9.21%
San Clemente, CA	-16.15%	-5.86%	27.90%
Marina Del Rey, CA	-5.31%	-5.49%	9.27%
Santa Clara, CA	-6.15%	-5.00%	5.67%
Canoga Park, CA	-4.17%	-4.24%	10.63%
Pittsburg, CA	-2.18%	-4.01%	2.67%
Fullerton, CA	-6.18%	-3.92%	10.70%
Philomath, OR	-1.87%	-3.92%	13.55%
Costa Mesa, CA	-1.86%	-3.84%	10.84%
Marble Falls, TX	-4.47%	-3.70%	18.50%
Peoria, AZ	-6.40%	-3.69%	36.98%
Phoenix, AZ	-4.03%	-2.98%	9.81%
Yuma, AZ	-5.50%	-2.77%	0.86%
Mesa, AZ	-2.88%	-2.74%	2.04%

The evidence suggests that Wells Fargo branch relocation strategy has not served members of "minority" groups and low-income people in these localities. These findings mirror the overall changes in the demographic profile of neighborhoods served by Wells Fargo branches as seen in the statewide summaries presented in Tables 1, 2, and 3.

Comparative Impacts of Wells Fargo's Branch Closings in Metropolitan and Nonmetropolitan Areas

A similar analysis shows that Wells Fargo is shifting service away from nonmetropolitan and rural areas – also traditionally underserved areas – as well. The Bank has publicly acknowledged this strategy. In one newspaper report announcing Wells Fargo's closure of a total of 14 branches in Washington, 26 in Oregon, 10 in Idaho and 22 in other Western rural areas, Wells Fargo spokesman Tom Unger explained that: 'Urban areas provide better growth prospects. We want

to offer a complete network of services in our locations - but that was not possible in rural communities where there are simply not enough people." (Tucker, 1997)

The following table illustrates this trend, summarizing by state and by year, the location of Wells Fargo branches in metropolitan and nonmetropolitan areas. To measure the impact of branch closings in metropolitan versus non-metropolitan areas, each branch was matched to its respective "Metropolitan Area" boundaries as defined by the Office of Management and Budget. Branches were then grouped into two categories: "metropolitan" and "non-metropolitan," depending upon whether they were inside or outside metropolitan areas.

Branch data reported by Wells Fargo show a disproportionate decline in the relative share of branches in nonmetropolitan areas.

For example, in California, Wells Fargo closed or sold ten percent of its branches between June 30, 1996 and March 1998, but the decline in the number of branches was 36% in nonmetropolitan areas and only 9% in metro areas. In Nevada, this trend is even more stark: Wells Fargo increased its metropolitan branches by 29% while its nonmetropolitan branches declined by 5%.

Table 5 Changes in the Distribution of Wells Fargo Branches, Statewide and by Metropolitan and Non-Metropolitan Areas

State	Change in the Total Number of Branches	Change in Metropolitan Branches	Change in non-Metropolitan Branches
Arizona	24%	30%	5%
California	-10%	-9%	-36%
Colorado	50%	50%	0%
Idaho	0%	0%	0%
Nevada	20%	29%	-5%
New Mexico	0%	0%	0%
Oregon	-22%	-13%	-39%
Texas	17%	21%	-33%
Utah	-18%	0%	-67%
Washington	-57%	-53%	-81%

Wells Fargo's Performance in Meeting Credit Needs

Independent of the number and location of a bank's branches, the "bottom line" test of a bank's community lending performance is the level and pattern of its lending within its communities.

Under the CRA, regulators evaluate the overall performance of banks in making home mortgage, small business, small farm, and consumer loans based on the geographic distribution of loans to borrowers of different incomes. The so-called 'lending test' evaluates an institution's consumer lending portfolio, its mortgage

lending, small business and small farm lending, lending for affordable housing and community development, and investments and other activities that might be argued to promote community development.

The test evaluates the geographic distribution of those loans, including the number and amount of loans to low-income areas; the characteristics of borrowers; the number and amount of community development loans; and, the use of innovative or flexible lending practices.

Notably absent from Wells Fargo's lending activities is home mortgage lending. The Bank left the home mortgage business in 1995, citing falling margins. The Bank continues to make home equity loans, which were not studied in this report.

In addition to the array of lending services offered, an institution's evaluation is to consider the relative volume of lending to its assessment area. An institution's lending patterns "should not exhibit conspicuous gaps," unless they can be explained by a lack of willing borrowers. (1995, 22165)

Wells Fargo's Self-Assigned Assessment Area is Highly Irregular, Appears to Arbitrarily Exclude Nearby Areas and Include Distant Ones, and May Overstate its Community Lending Performance

A bank's "focus on serving its local community" is measured by the institution's lending to its assessment area – the self-designated, geographic area which encompasses the location of an institution's branches, loan offices, and deposit-taking automated teller machines. (1995 CRA regulations, p. 22165, 22171)

The CRA regulations state that an assessment area "should include the geographies in which a bank has its offices and deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans." (page 22184)

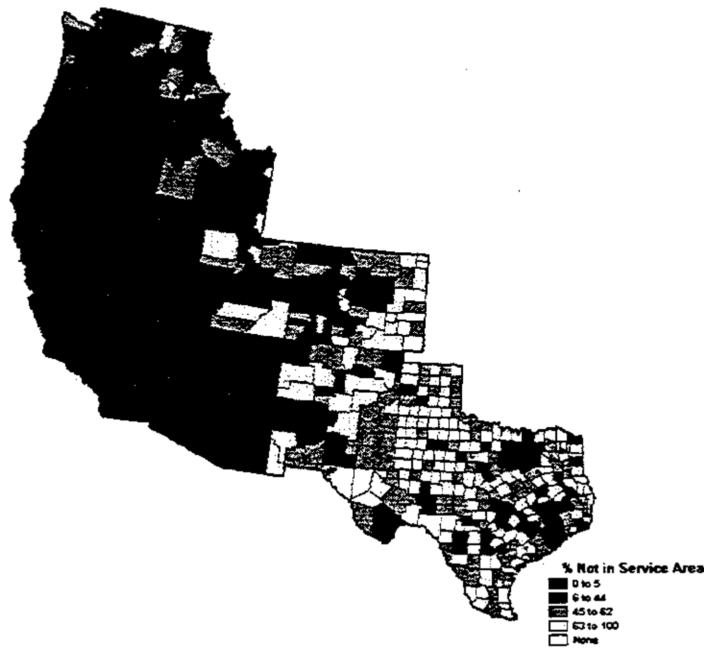
CRA regulations encourage institutions "to draw [their] assessment area broadly enough to allow the dispersion of [their] lending and the distribution of [their] loans among geographies of different income levels." (ibid.)

However, Wells Fargo's designated service area appears highly irregular. The apparently arbitrary exclusion of census tracts from its service area – including those within normal market areas of branches – may signify that the Bank is excluding communities with lower incomes and higher percent minority populations from its services areas.

Under the "lending test," an institution's lending pattern should not "exhibit conspicuous gaps that are not adequately explained by the 'performance context' – a hypothetically 'pure' business or market-driven decision." The law prohibits banks from "arbitrarily excluding low- or moderate-income geographies." (page 22171)

Wells Fargo identified 13,641 census tracts in ten western states as its primary service area. As the following map indicates, Wells Fargo designated all of California, Arizona, Nevada, and Oregon as within its primary service area. The Bank's coverage of census tracts in Washington, Idaho, Utah, Colorado, New Mexico, and Texas was less complete.

Figure 4 Percentage of Census Tracts in Wells Fargo's Service Area, by County



A principal question is whether this service area reflects the Bank's actual geography of deposit-taking facilities and lending or whether the designated service area "arbitrarily" excludes any geographies.

According to an October 1997 Federal Reserve paper, 75% of small businesses obtain their equipment loans within thirty-five miles of their business location. (Kwast et al., 1997) A similar percentage obtained its lines of credit within eleven miles of their lending institution. Ninety percent of all small businesses surveyed obtain their lines of credit at institutions within forty-five miles of their business and held deposit accounts at branches within fifteen miles of their location. Based on these findings, it is reasonable to question the exclusion of any census tract within thirty-five miles of a Wells Fargo branch from the Bank's assessment area.

There are many census tracts within thirty-five miles of a branch that are excluded from the Bank's self-designated service area—and there are many beyond thirty-five miles from any branch that are included in the Bank's service area. The following table reports the number of census tracts within a thirty-five-mile radius that are excluded from the Bank's reported service area.

Table 6 Tracts Adjacent To Branches But Excluded From Service Area

State	Nearby Tracts Not in Service Area
Colorado	27
Idaho	15
New Mexico	15
Texas	294
Utah	22
Washington	51

One effect of this exclusion is that the Bank's lending to small businesses and small farms in these census tracts is not reported in federal disclosure data and is not normally considered by regulators in evaluating a bank's CRA performance. If examiners do not correct the exclusion of these tracts from the Bank's designated service area, then they will be excluding lower-income tracts from the Bank's CRA performance evaluation, thus inflating the Bank's CRA rating.

This is significant because the roughly 400 census tracts that lie within thirty-five miles of a branch, but are excluded from the Bank's service area tended to be lower in income than areas the nearby tracts that were included in the Bank's designated service area.

In every state not served in its entirety by the Bank, the census tracts within thirty-five miles of branches but excluded from the service area tended to have lower incomes than those census tracts in the designated service area within the same thirty-five mile radius of a Wells Fargo branch.

Furthermore, in Idaho and New Mexico, these nearby tracts excluded from the service area had a higher percentage minority population.

The excluded census tracts as a group had a lower than average median family income when compared to the tracts within the service area in thirty-five counties out of a total of eighty-six where the Bank designated only a portion of tracts near branches. The excluded tracts had a higher than average percentage of minority residents when compared to those within the Bank's service area in thirty-eight counties.

Again, because the Bank excluded these tracts from its designated service area – and only the presence or absence of originations are reported at the census tract level – it is not possible to determine if the bank made any loans to small businesses or small farms in these tracts. If examiners do not correct the problem, the exclusion of these lower-income tracts from the Bank's CRA assessment area could lead to an inflated CRA evaluation.

Wells Fargo's Small Business and Small Farm Loans in 1995

Small-business lending is soaring, according to a recent Small Business Administration study—especially at the low end of the business revenue scale. "Banks are making it very easy to get credit," said Jere Glover, the agency's chief counsel for advocacy.

In the year ended last June 30, the latest period for which call-report data are available, the number of small-business bank loans with outstandings of less than $1 million jumped 23.6%, the SBA found. (American Banker, 1998) Bankers have become more accustomed to evaluating small-business loans, and have reduced the time it takes to win credit approval from two weeks to a few hours. These changes have spurred under-$100,000 lending, Mr. Glover said.

Wells has touted its growth in small business lending. According to the Bank's 1997 annual report, a combined sales strategy of direct mail solicitation and 140 commercial loan officers produced a growth in total loan outstandings of 20% during the year from $4.9 billion to $6.0 billion. Press reports have been equally approving: "From virtually nothing four years ago Wells Fargo's small business loans last year grew 22%, to $6 billion, spread among 300,000 borrowers. Work that once required thousands of clerks and loan officers can now be done by PCs equipped with . . . borrower profiling software." (Lubove, 1998)

Borrower profiling, also known as credit scoring, is a controversial method of reducing the costs of loan originations. While substituting computer algorithms for loan officers may be an effective strategy for big banks to cut costs, several studies suggest that these types of practices may not be favorable for small business in general.

In 1995, the National Federation of Independent Business found that 25% of small-business owners had been customers of a merged bank. Of these, 34 percent experienced some disadvantages. Just 7 percent said the merger was positive for their business. And 13 percent were so put out that they changed banks. Allen Berger of the Federal Reserve Board agrees that when larger banks merge, the result is generally fewer loans to small businesses. (1998d)

As the analysis below shows, Wells' high-tech marketing techniques did not serve low-income areas equally.

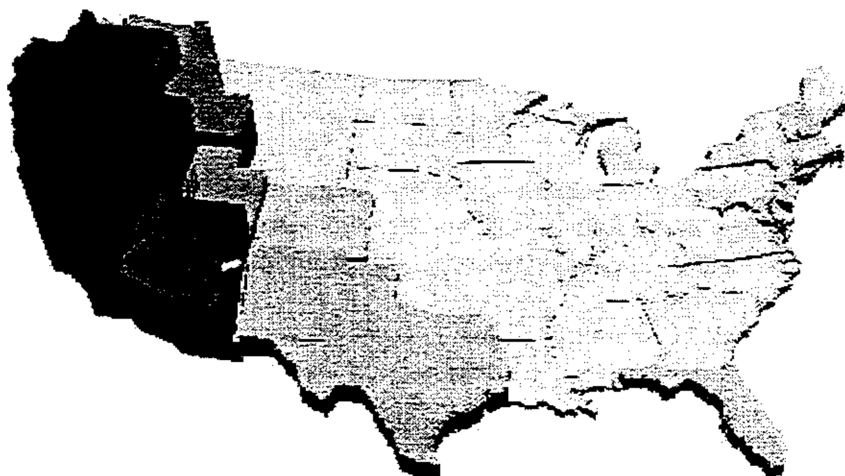
In 1996, Wells Fargo, NA ranked third nationally in the total number of small business loan originations and purchases. And it was nationally the number one lender in terms of the number of originations and purchases of small business loans between $100,000 and $250,000 and for small business loans in amounts greater than $250,000. But for loans of below $100,000, Wells Fargo ranked third nationally. And the data further show that in pursuing its place on the national scene, Wells Fargo may be neglecting the credit needs of its own service areas and low-income areas.

Wells Fargo's National Lending Strategy

Although Wells Fargo gets its deposits from localities in only ten western states, The Bank's small business lending is nationwide. In 1996, Wells Fargo reported originations and purchases of loans to small businesses in all fifty states and the District of Columbia.

The following map best presents this national pattern of lending. This map presents the number of small business originations as a rate to the number of small businesses in a state, as reported by the 1996 Census of county business patterns.

Figure 5 Wells Fargo's 1996 Small Business Loans Per 100 Small Businesses



As presented in Figure 2, Wells Fargo's lending rate to small businesses was highest in California (7.28 loans per 100 businesses), Nevada (5.23), Oregon (5.14) and Arizona (4.35). However, the Bank also reported large numbers of originations and loan purchases in Texas (6,468); New York State (4,168); Florida (3,941); and Washington State (3,818).

As the loan origination data show, the Bank is using cost-saving national marketing strategies – such as Internet applications, "credit scoring," and cold-contact letters – for its smaller business loan products. In the District of Columbia and forty other states, more than 99% of Wells Fargo's reported originations were below $100,000. These small business loans averaged about $25,000. The nine states where small business originations were not mainly limited to the $100,000 limit were in Wells Fargo's primary service area. The one state in the Bank's service area that was an exception to this pattern was New Mexico, where Wells Fargo originated only three small business or small farm loans in excess of $100,000.3

[3] See Table A2 in Appendix for a listing of Wells Fargo Small Business and Small Farm Lending for selected states.

Wells Fargo's high-tech approach to lending may make it less able to meet its obligations under the CRA. Wells' own lending data show that the Bank has not been successful in reaching lower-income areas. And although recent articles described a new $1 billion commitment by Wells to Black-owned small businesses, the only avenue reported was a web address. (Business Briefs, 1998) As federal data show large racial and income disparities in the access to computers and the Internet (Bridis, 1998; Kinney, 1995), it seems unlikely that this new commitment will assist Wells Fargo in complying with CRA.

Percentage of Wells Fargo's Lending within its Assessment Area

Wells Fargo's national strategy for small business lending also casts into doubt its commitment to its primary service areas: those communities from which it takes its deposits. In this respect, Wells Fargo ranks 181st out of the largest 200 lenders in its level of lending committed to its primary service areas. These top 200 lenders on average reinvested 84% of loans in their respective primary service areas, compared with Wells Fargo's reported 68% reinvestment.

The Bank did an especially poor job of focusing its lending in its assessment areas in Texas, Colorado, and New Mexico - where its assessment areas encompassed less than the entire state. As shown below, this pattern generally holds true regardless of the size of the loan.

Table 7 Wells Fargo Assessment Area Lending as Percent of its Total Lending

Name	Percent All Loans in Assessment Area	Percent All Loan Amounts in Assessment Area	Percent Small Loans in Assessment Area	Percent Mid-sized Loans in Assessment Area	Percent Larger Loans in Assessment Area
Washington	92.98%	95.27%	92.63%	97.83%	96.69%
Utah	92.93%	96.11%	92.48%	93.75%	100.00%
Idaho	88.48%	93.10%	87.72%	94.74%	97.30%
Texas	79.53%	87.04%	78.43%	96.88%	92.79%
Colorado	53.34%	67.23%	52.18%	87.50%	78.57%
New Mexico	17.58%	18.26%	17.45%	100.00%	NA

Overall, California was the main exporter of capital due to Wells Fargo's dispersed lending strategy. As the following table demonstrates, California supplied 73% of the Bank's deposits, but received only 49% of the total loans and 59% of the total dollar amount of small business lending by the Bank. Other net exporters were Nevada, Texas and Arizona.

Table 8 Distribution Of Wells Fargo's Deposits And Lending By State

State	Deposits ($1,000s) June 1997	Share of Deposits	Share of Loans	Share of Amount	Share of Mid-sized Loans	Share of Mid-sized Amount	Share of Large-sized Loans	Share of Large-sized Amount
Arizona	$4,809,164	6.50%	3.98%	4.21%	3.96%	3.98%	4.10%	4.26%
California	$54,167,898	73.23%	48.54%	58.83%	78.15%	78.38%	74.53%	72.75%
Idaho	$579,793	0.78%	1.00%	1.29%	1.81%	1.80%	1.46%	1.40%
Nevada	$2,683,773	3.63%	1.77%	1.90%	1.99%	2.04%	1.76%	1.84%
New Mexico	$86,409	0.12%	0.57%	0.32%	0.04%	0.04%	0.03%	0.02%
Oregon	$3,223,628	4.36%	4.53%	4.94%	4.94%	4.74%	5.07%	5.26%
Texas	$5,056,101	6.84%	5.81%	6.35%	4.60%	4.56%	6.31%	7.11%
Utah	$642,663	0.87%	0.87%	1.17%	1.10%	1.17%	1.46%	1.58%
Washington	$2,369,993	3.20%	3.51%	4.14%	3.27%	3.13%	5.04%	5.51%

Wells Fargo's Market Share by income level of Small Business and Small Farm Loans

As stated above, lending institutions have a basic obligation to help meet the credit needs of their community. The CRA obliges banks to ensure that their lending and services do not exclude geographies or population groups.

The following analysis compares Wells Fargo's lending with that of other institutions to traditionally underserved geographies and population groups. It uses the basic principle that good performance in serving an entire market area should be matched by a similar performance by that institution in reaching underserved communities. In other words, an bank's market share in traditionally underserved submarkets should match its market share in the market as a whole.

It is both a strength and a weakness of this analysis that institutions are compared to their peers for a measurement of their performance. A market share analysis like the following incorporates this shortcoming: if lenders are compared only to their peers, then the measure of their performance will be biased by the performance of the group as a whole. Readers should be aware of this shortcoming in the following analysis. Thus, if banks overall are underserving particular groups, then a single bank's lackluster performance will appear, subjectively, average.

By the same token, while an institution may claim that disparities in its lending across social categories are the result of market forces beyond its control, that argument is less successful when it can be shown that other lenders have found ways to better meet the credit needs of those markets.

Areas with Abnormally Low Penetration by Wells Fargo

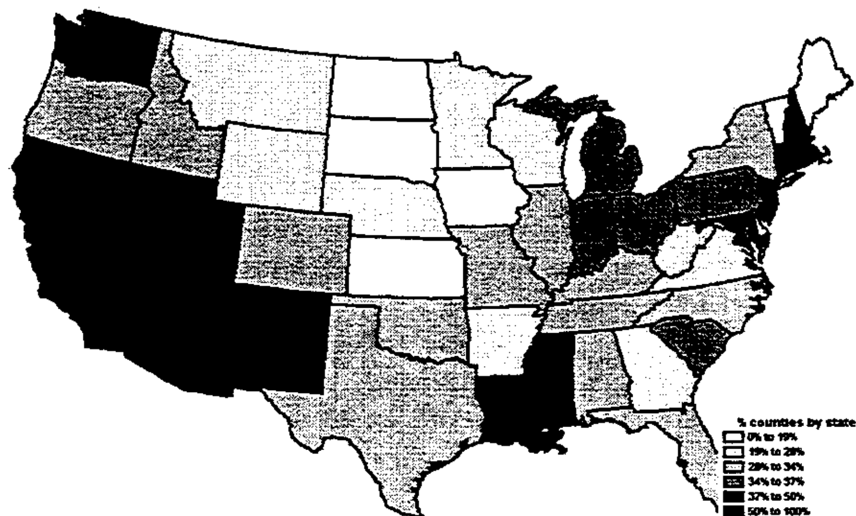
This section of the report discusses Wells Fargo's performance compared to other institutions in making small business and small farm loans to lower-income populations. In the following analysis, all lending was aggregated by categories of census tracts within a county—tracts with median family income below 80% of area

median as 'lower-income' tracts and tracts with median family income greater than 80% of area median as 'higher-income' tract. Wells Fargo's performance, expressed as market share-in reaching those tracts with its loan products, was measured against the performance of other reporting lenders.

The data show that Wells Fargo failed to match its competitors in serving lower-income populations in 69% of the counties where it made loans. Thus, although the ability of a lender to reach traditionally underserved areas is at the core of the CRA, in the vast majority of counties, Wells Fargo failed to reach lower-income populations with its small business and small farm loans. In only five states—NM, NJ, CT, MA, AK—and the District of Columbia did the number of counties well-served by Wells Fargo exceed the number of counties in which the Bank failed to adequately serve lower-income areas.

In twenty-eight other states, the number of counties with underserved lower-income areas outnumbered the number of counties with well-served lower-income areas by a ratio of more than two to one. The following map describes this distribution of counties within the continental United States.

Figure 6 Areas Where Wells Fargo Serves Lower-Income Areas Relatively Better than Higher Income Areas, Percent of Counties with Lower Income Areas Better Served



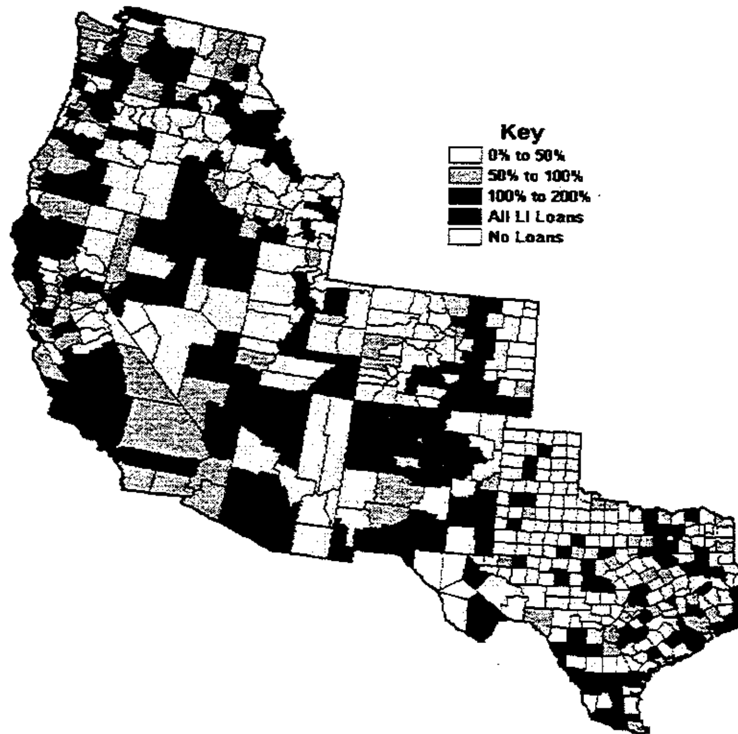
Although Wells Fargo's lower-income lending was somewhat stronger in its most important counties in terms of the number of originations, it did only a slightly better job overall of reaching lower-income populations in the ten western states from which it takes its deposits.4

Out of 514 counties where the Bank made small business or small farm loans in these ten western states, its market share in lower-income census tracts was lower

[4] See Table A3 in Appendix for a detailed breakdown of Wells Fargo's comparative market share by income level in its largest markets.

than its market share in higher-income census tracts in 327 counties (64%). Outside of these states, Wells Fargo's performance was even worse. The Bank's market share in lower-income tracts was lower than its market share in higher-income census tracts in 71% of the counties.

Figure 7 Wells Fargo's Market Share in Lower-Income Tracts as a Percent of its Market Share in Higher-Income Tracts



Conclusion

Like all lending institutions, Wells Fargo has a basic obligation to help meet the credit needs of its communities. The current wave of consolidation underway in the financial services industry makes it more important than ever to ensure that no neighborhoods or segments of the population are excluded from access to lending or financial services.

However, Wells Fargo's acquisition of First Interstate Bancorp, rather than enabling the Bank to improve its services and lending to traditionally underserved groups, appears to have made matters worse.

The data in this analysis suggest that in a majority of localities where the Bank had its branches, Wells Fargo branches actually moved away from "Non-White," Hispanic, or lower income neighborhoods and away from nonmetropolitan and rural areas.

In relative terms, Wells Fargo failed to match its competitors in serving lower-income populations in an astounding 69% of the counties where it made loans. There are also a number of questions raised by the irregularity of the Bank's self-designated service area, which may inaccurately portray the scope of its lending and may perhaps skew its CRA evaluation.

These findings raise questions about Wells Fargo's compliance with the Community Reinvestment Act and the adequacy of the Bank's much publicized "$45 billion" CRA commitment in relation to the communities in which it does business. Examiners who are currently evaluating the Bank's past performance—and considering its application to merge with Norwest Bancorp – should intensify their oversight of the Bank's lending and branch closures.

Finally, the findings also suggest that strengthened oversight and enforcement of the CRA will be necessary to ensure that people of color, low-income people and people living in rural areas have access to financial services.

Sources of Information

The statistical information used in this study is from several sources. These include the Bank's small business and small farm data reported under the CRA small business and small farm disclosure requirements, and OCC and CRA evaluations. The small business and small farm lending data are for 1996, which was the first and is currently the only year for which these data have been published by federal regulatory agencies. The branch location and deposit amounts data used in this report are from June 30, 1996 and June 30, 1997 FDIC reports. The list of current branches from the FDIC was current through March 1998. Census demographic data are from the 1990 Census. The location of small businesses is from the 1995 County Business Patterns report, also published by the Bureau of the Census.

The branch location analysis in this study compares branch demographic information from two different government databases and therefore should be used with care. One is the FDIC's "Institutions and Branch Office" database. Another is the "Summary of Deposits" database managed jointly by the FDIC and OTS. Unfortunately, there are very limited comprehensive, historical branch location data available to the public. The information in the different federal databases does not strictly coincide. Information about Wells Fargo branches in 1996 and 1997 came from the "Summary of Deposits" database, while the March 1998 data came from the "Institutions and Branch Offices" database. There may be some error in the findings due to this discrepancy in the data sources. (The Bank itself declined direct requests for its branch location data in a machine-readable format.)

According to the FDIC's annual Summary of Deposits, between June 30, 1996 and June 30, 1997, the number of depository branches at Wells Fargo decreased from 1,922 to 1,417, or a decline of 26 percent. Deposits in all Wells Fargo branches declined by $12 billion over that period, or 15%.

California had the largest number of branches closed or sold: 411 out of a total of 505 closed or sold during the year between June 1996 and 1997. The trends described in this report cover the period between June 1996 and March 1998.

Because the 1998 data more are comprehensive, the 1998 data should not underreport any branches in "minority" and lower-income neighborhoods. California and Washington together accounted for most of the decline in Bank deposits. Wells Fargo reported a $3.3 billion decline in California deposits (6% decline over the year) and a $3.6 billion decline (61%) in Washington. The California decline represented 27% of the corporate total, and the Washington decline in deposits was 29% of the loss that year. California contributes 79% of the deposits of the bank, and Washington contributes 3%. Eighty-one percent of the depository branches closed or sold by Wells Fargo between June 1996 and June 1997 were in California.

Definitions

Metropolitan Statistical Area

The general concept of a metropolitan area (MSA) is one of a large population nucleus, together with adjacent communities that have a high degree of economic and social integration with that nucleus. Some MSA's are defined around two or more nuclei.

The MSA classification is a statistical standard, developed for use by Federal agencies in the production, analysis, and publication of data on MSA's. The MSA's are designated and defined by the Federal Office of Management and Budget, following a set of official published standards. The Interagency Federal Executive Committee developed these standards on Metropolitan Statistical Areas, with the aim of producing definitions that are as consistent as possible for all MSA's nationwide.

Each MSA must contain either a place with a minimum population of 50,000 or a Census Bureau-defined urbanized area and a total MSA population of at least 100,000 (75,000 in New England). An MSA comprises one or more central counties. An MSA also may include one or more outlying counties that have close economic and social relationships with the central county. An outlying county must have a specified level of commuting to the central counties and also must meet certain standards regarding metropolitan character, such as population density, urban population, and population growth. The metropolitan and nonmetropolitan classification cuts across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and nonmetropolitan areas.

Census Tracts

Census tracts are small, relatively permanent statistical subdivisions of a county. Census tracts are delineated for all Metropolitan Statistical Areas (MSA's) and other densely populated counties by local census statistical areas committees following Census Bureau guidelines (more than 3,000 census tracts have been established in 221 counties outside MSA's). Census tracts usually have between 2,500 and 8,000 persons and, when first delineated, are designed to be homogeneous with respect to population characteristics, economic status, and living conditions. Census tracts do not cross county boundaries. The spatial size of census tracts varies widely depending on the density of settlement. Census tract boundaries are delineated with the intention of being maintained over a long time so that statistical comparisons can be made from census to census. However, physical changes in street patterns caused by highway construction, new development, etc., may require occasional revisions; census tracts occasionally are split due to large population growth, or combined as a result of substantial population decline.

Very low-income; Low-income; Moderate-income; and Upper-income

Income levels in this study are based on the 1990 census MSA median family income for activities in the state's metropolitan areas and on the 1990 statewide median family income for activities outside MSAs. Income levels reported with small business and small farm loans are provided by the Federal Financial Institutions Examination Council. For this study, very low-income is 50% or less of the area median family income; low-income is between 50% and 80% of the area median family income; moderate income is between 80% and 120% of the area median; and, upper income are those incomes beyond 120% of the area median. For the small business and small farm lending analysis, "lower-income" census tracts are those with incomes below 80% of the area median, and "higher-income" census tracts are those with income levels above 80% of the area median.

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Appendix

Table 9 Number of Localities with All Wells Fargo Branches Closed or Sold, 1996-98

State	All Branch(es) Closed or Sold
AZ	12
CA	68
CO	
ID	
NM	
NV	
OR	25
TX	5
UT	5
WA	14
TOTAL	129

Table 10 Statewide Small Business and Small Farm Lending by Wells Fargo in 1996

State	Loans	Amount ($1,000s)	Loans Under $100K	Loan Amount Under $100K	Loans to Businesses with Rev enues Under $1Million	Amount to Businesses with Rev enues Under $1Million	Number of Small Businesses in the State	Rate
California	53,606	$2,930,768	47,638	$1,153,33	40,944	$1,817,173	736,789	7.28
Texas	6,468	$327,259	6,036	$172,787	3,413	$128,077	436,830	1.48
Oregon	4,791	$232,842	4,449	$120,117	2,951	$104,513	93,254	5.14
Arizona	4,317	$200,128	4,042	$111,087	2,774	$94,221	99,304	4.35
New York	4,168	$115,169	4,168	$115,169	2,392	$57,732	465,599	0.90
Florida	3,941	$107,545	3,939	$106,977	2,215	$51,189	394,448	1.00
Washington	3,818	$202,253	3,529	$95,001	2,306	$93,646	151,609	2.52
New Jersey	1,988	$54,940	1,988	$54,940	1,164	$27,692	220,267	0.90
Nevada	1,938	$94,602	1,794	$49,569	1,234	$44,991	37,030	5.23
Pennsylvania	1,851	$47,002	1,851	$47,002	1,106	$24,716	282,835	0.65
Illinois	1,621	$41,613	1,620	$41,365	1,024	$23,615	292,665	0.55
Massachusetts	1,524	$41,698	1,523	$41,223	870	$20,325	159,747	0.95
Ohio	1,453	$36,426	1,452	$36,276	882	$19,222	262,790	0.55
Colorado	1,361	$54,644	1,309	$34,235	813	$26,951	117,838	1.15
Michigan	1,351	$34,183	1,351	$34,183	824	$17,826	224,963	0.60

Note: the small business and small farm lending rate is the number of Wells Fargo loans as a ratio to every one hundred businesses in a state.

Table 11 Wells Fargo's Comparative Market Share By Income Level In Its Biggest Markets

County	Loans	Amount ($1,000s)	Share of Loans in Lower-Income tracts	Share in Lower-Income tracts as Percent of share in Higher-Income tracts
LOS ANGELES CA	14,385	$755,807	17.33%	102.35%
ORANGE CA	5,796	$351,637	22.24%	111.26%
SAN DIEGO CA	4,596	$198,370	21.97%	97.81%
SANTA CLARA CA	3,667	$206,964	21.62%	87.02%
SAN FRANCISCO CA	3,069	$175,375	31.14%	100.61%
ALAMEDA CA	3,004	$231,156	28.84%	112.00%
MARICOPA AZ	2,729	$140,018	11.54%	104.22%
SACRAMENTO CA	2,197	$113,010	25.70%	94.71%
SAN MATEO CA	2,077	$111,003	28.32%	91.76%
HARRIS TX	2,056	$142,699	5.82%	92.84%
CONTRA COSTA CA	1,483	$76,735	22.17%	100.37%
KING WA	1,468	$85,014	7.34%	92.80%
RIVERSIDE CA	1,361	$69,741	16.92%	100.52%
SAN BERNARDINO CA	1,299	$72,667	15%	94.41%
MULTNOMAH OR	1,211	$73,012	13.46%	111.34%
VENTURA CA	1,095	$60,111	21.71%	111.55%
CLARK NV	1,030	$51,712	10.51%	96.71%
DALLAS TX	985	$46,893	5.17%	113.89%
FRESNO CA	955	$81,771	16.12%	100.86%
DADE FL	951	$27,178		
NEW YORK NY	942	$27,384		
KERN CA	914	$64,887	21.66%	109.32%
MARIN CA	811	$40,847	20.75%	85.92%
COOK IL	801	$20,701		
SONOMA CA	786	$43,007	17.70%	88.46%