Arc Massachusetts

Families making a difference for more than 40 years

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Donald Stewart, President
Leo V. Sarkissian, Executive Director

To:	Robert M. Brady, Vice President Federal Reserve Bank of Boston
Fr:	Leo Sarkissian, Executive Director
Re:	Fleet Financial and BankBoston
Date:	July 8, 1999

I appreciate the opportunity to testify on behalf of Arc Massachusetts. Our organization's mission is to enhance the quality of life for individuals with specific developmental disabilities. Arc Massachusetts accomplishes this mission by promoting quality community services and advocating for enlightened public policy.

There are a number of systems issues to resolve when a merger such as this is proposed. I'm sure there are professionals who have testified to the level of community investment on the part of community banks versus larger institutions. I would think any review of this merger should include an analysis of community investment that has been made by both institutions.

I am here to help represent the voice of people with disabilities who have been shut out of the housing market over the past several years. "Priced Out in 1998", is a report published by the Technical Assistance Collaborative, Inc (TAC) and the Consortium for Citizens with Disabilities (CCD) It documents the severity and nature of the housing crisis for people with disabilities. The report cites that the crisis is most evident in the affordability of "efficiency" or studio and one-bedroom apartments. On a national average, the cost of a one-bedroom apartment is 60% of SSI (supplemental security income) monthly income and more than a person's total monthly income in 125 housing markets of the United States. For many people with disabilities, especially cognitive disabilities such as mental retardation, SSI is the primary source of personal income. In Massachusetts this income is under 17% of the 1-Person Median Income (Opening Doors, May 1999). People with disabilities often end up in the category of 'extremely low income'. HUD studies estimate that 70% of households with incomes below 30% of median income who are not receiving HUD assistance have priority housing problems.

In Massachusetts, the percentage of SSI income to rent an efficiency unit is 94.89% while to rent a one-bedroom, the percentage are over 100% (116.79%), higher than most states including New York. But it is not easy for families either. Families are forced to accept housing units sometimes on upper floors where they must carry their children up the stairs. Once upstairs, they go down again to carry up the wheelchair or other equipment.

There are many cities and towns in the Boston metropolitan area where less than 10% of housing stock is considered "affordable housing." (1995, CHAS, Executive Office of Communities and Development-Massachusetts) Over half the state's population lives in this metropolitan area. Cities/Towns, which are below the 10% threshold, include Newton (3.8%), Arlington (4.4%), Waltham (5%), Malden (8.9%), Framingham (9%), and Medford (6.9%).

FEDERAL RESERVE BANK OF BOSTON
Public Hearing July 7, 1999
Merger Proposal by Fleet Financial Group Inc. and BankBoston Corporation

TESTIMONY OF ANDREW R. GRAINGER
President, New England Legal Foundation

1. My name is Andrew Grainger. I appear today as President of New England Legal Foundation, a not-for-profit public interest law firm which has as its mission the defense of traditional economic liberties, support of our system of free enterprise and balanced economic growth throughout our six state region.

2. NELF is represented throughout New England by a Board of Directors comprised of General Counsel and senior partners from leading businesses and law firms. We also have a network of Advisory Councils, one in each New England state, which provide the Foundation with an "ear to the ground" on issues affecting business, the economy and property rights on a state and local level.

3. The Foundation's primary activity consists of filing amicus briefs in lawsuits where a policy or constitutional position requires consideration in the resolution of a dispute affecting economic rights and obligations. We typically are involved in more or less 30 cases every year in state and federal courts, primarily in New England but also throughout the country, as well as two or three in the United States Supreme Court.

4. The Foundation also engages in advocacy outside of the courtroom on behalf of free enterprise interests and the business climate in New England. In this context I speak today as the Foundation's President in support of the proposed merger between Fleet and BankBoston.

5. The economic well being of New England and the best interests of individuals and companies doing business here are better served if we can preserve a large strong regionally based commercial lender, as this merger contemplates. We are all aware that institutions the size of Fleet and BankBoston are vulnerable to out-of-region acquirers many times their size.

6. While large national and international businesses based in New England can select on a national and international basis to meet their capital requirements, middle market and smaller companies are hurt when deposit and credit decisions are removed to other parts of the country. In particular the branch system and cash management services that New England based lenders can provide are important to New England businesses. If, as it should, the proposed merger preserves a local presence, then Boston and the rest of New England will benefit.

Testimony of John T. O'Connor
Re: Proposed merger of Fleet Bank and BankBoston

Submitted to The Federal Reserve Bank of Boston
July 7, 1999

Good afternoon. My name is John O'Connor. I am a longtime community organizer with substantial experience in consumer and urban empowerment issues, and the president of a Cambridge environmental firm, as well as a member of State Senator Dianne Wilkerson's Community Advisory Committee. For all these reasons, I have followed with great interest and growing concern the planned merger of Fleet Bank and BankBoston.

I speak today to express my strong opposition to that proposal. This merger would substantially lessen competition in Massachusetts and around New England, nor would there be sufficient (if any) net positive benefits to the public interest to justify its approval.

Put simply, this is a deal that may "greenline" the pockets of Fleet and BankBoston shareholders, but it redlines the needs and concerns of Massachusetts consumers, small businesses and urban communities.

Let me start by stating the obvious. Although what's being proposed here is usually described as a merger of two, Fleet and BankBoston, it in fact represents the consolidation of what had been—just a few short years ago—four of the largest banks in Massachusetts, into a single entity. Surely, going from four to two, and now two to one, cannot be a recipe for robust, healthy competition.

Not surprisingly, even after divestiture, this new Fleet Boston entity would utterly dominate regional markets, commanding a roughly one-third share across Massachusetts, and possibly even more in greater Boston. In other areas, like Worcester, Hartford CT, and Rhode Island, Fleet Boston's overwhelming presence would be even more dramatic. Ironically, many of these markets are already over-concentrated in the hands of Fleet alone at its current size.

Likewise, the new Fleet Boston would be by far the biggest holder of ATMs in Massachusetts. Again, even after divestiture, Fleet Boston is likely to control upwards of half of all bank-owned ATM machines in our state—many times the number held by any other institution.

Some say the solution lies in recruiting some financial behemoth from Charlotte or San Francisco to come up to New England and compete with Fleet-Boston on its own terms, while others favor helping our existing smaller banks to do more. Let's be clear: this is a no-win situation. If history is any guide, small banks probably will better serve their customers and our communities than mega-giants like the proposed Fleet Boston. But they cannot effectively compete in the super-heavyweight division occupied by a Fleet-Boston. Eventually many of these smaller banks will be acquired, squeezed out, or just plain run over.

So I, for one, cannot see how this proposed merger—no matter how it's handled—can do anything other than substantially lessen competition. At best, it pushes us farther in the direction of a market oligarchy, which is not an acceptable substitute for true competition.

The question then becomes: will consumers and our communities see sufficient new benefits from Fleet Boston in terms of convenience or service to offset the bad side-effects of diminished competition? Again, the answer is a clear "no."

BankBoston and Fleet are both plenty big enough now to be able (in theory anyway, if not always in practice) to offer the full range of services and products needed by our consumers and our economy. This isn't a case of two little community banks teaming up to be able to do more lending to mid-sized businesses, say.

Nor is there any reason to think that, when it comes to banks, bigger inherently means better for consumers. Just the opposite, in fact. Big banks charge more, not less, for the basic services most individual and small business customers count on. According to one 1997 study, big banks charge 15% higher fees on checking accounts; require substantially higher minimum balances; and impose more and higher surcharges for ATM usage.

Significantly, Fleet and BankBoston have been very quiet on the subject of customer fees and consumer issues. So unless and until they make some public commitments to the contrary, I see no evidence to assume the outcome here will be any different: more money for less service. Fleet and BankBoston may consider that perfectly "convenient," but consumers and small businesses will probably think otherwise.

Finally, there's the vital issue of how this deal meets (or fails to meet) the needs of all our communities, and whether the proposed merger and the component banks are truly in compliance with the purposes of the Community Reinvestment Act.

A couple of weeks ago, Fleet and BankBoston unveiled what they're touting as a $14 billion-plus CRA commitment that allegedly addresses these concerns. Having examined it closely, I concur totally with the many others who have criticized it as both woefully insufficient in funding, lacking in forward-looking innovations that anticipate likely changes in the financial services landscape, and, critically, missing an enforcement mechanism.

Parse the numbers and you find that the Fleet / BankBoston CRA proposal falls short of representing what the two institutions have achieved separately. Even taking into account shrinkage due to expected divestitures, the CRA plan would constitute a 12 percent decline in small business lending and a whopping 46 percent drop in lending and investment for community development.

That CRA shortfall is even more striking when you consider that Fleet's present level of effort is already insufficient, and is reflective of the fact that the previous generation of takeovers and consolidations involving Fleet have generally lessened, rather than increased, the availability of banking products and services for many residents, especially in urban areas.

One recent study finds, for example, that following its acquisitions just a few years ago of Shawmut National and NatWest bank, total Fleet mortgage lending to African-American, Latino and low-income borrowers in the Boston area dropped sharply relative to what had been achieved previously by the separate institutions. Other data show a similar falloff in New York State.

Under the CRA statute, these kind of facts alone should be sufficient grounds to deny Fleet the right to expand its franchise still further—whether through this merger or some other means—until Fleet proves it has cleaned up its act.

Let me close by going back to the beginning.

Fleet and BankBoston kicked off this process some months ago with the now-famous phrase that "one plus one is greater than two." Asked to attach some specifics to that promise, Fleet officials soon asserted their statement was meant to apply only to supposed business "synergies"—a synonym, I take it, for shareholder profits.

But I suggest today that Fleet must be held to its word, and that the merits of this proposed merger must be tested against the same benchmark Fleet has set for itself.

Does Fleet plus BankBoston really add up to more than the sum of its parts, for all our people and all our communities? In short, does it work for us, all of us?

Or is it actually the case that Fleet / BankBoston's deal asks us to work for them, through higher fees, fewer choices, and less attention to the pressing needs of so many of our communities?

I respectfully submit to you that this proposal does not and will not pass these tests, and should therefore be rejected.

Thank you.

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