

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



June 16, 1998

Board of Governors
Federal Reserve System
20th and C Streets NW
Washington, D.C. 20551

Panel 17
7-10-98 Michele Faddi to
Hon. Mary King,
Superior Alameda Co.

Dear Boardmembers:

On behalf of the 9 counties and 97 cities that are members of the Association of Bay Area Governments, I am writing to submit our comments on the proposed merger of BankAmerica and NationsBank.

Our Association recently convened a regional hearing on the impact of the merger; many of those testifying you are hearing from on a separate basis, but we have enclosed for your review any written testimony submitted to us. Our own concerns can be summarized as follows:

- **Job Losses** - We are concerned about the large number of jobs being eliminated, and particularly concerned about the number that will be eliminated, not just in San Francisco but throughout the Bay Area. *We ask that employees receive reasonable notice of any layoffs, and that the new bank make a commitment to job training and placement.*
- **Community Development** - We are concerned about the recent community development "commitment" that fails to provide specifics about distribution throughout various states, regions and communities. In addition, reference to "small business" fails to provide specific commitments to minorities and low income populations. *We are concerned about the preservation of BoFA's community development bank, and demand that the new bank not compete with non-profit housing developers in the Bay Area.*
- **Consumer Protection** - We are concerned about branch closures, fee increases, ATM availability and ATM fees, and honoring commitments to current customers. If the new bank plans to save over a billion dollars by 1999, we can only suspect that it is the consumers who will feel the impact. *The merger announcement boasted that the new bank will have \$570 billion in assets; how will this giant maintain its connection to the hometown customers?*

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- **Fairness to Minority and Low Income Populations** - It has been stated that NationsBank has a reputation for "generic lending"-- and California is not a generic state. (Our Association has forecast significant changes in regional demographics: the Asian population will grow from 16% of the population in 1990 to 20% in 2020; the Hispanic population will grow from 14% to 24%; by 2020, the Caucasian population will no longer be a majority, at 47%.) We are concerned that NationsBank is not prepared to deal with the diversity in California and especially the Bay Area. We are concerned with reports that NationsBank has a very poor record of lending to minorities and low income populations, lending only 6.3% to low income households, and even lower percentages to minorities. *The new bank must not be dragged down by the poor standards established by NationsBank-- similar performance with minority and low income lending will not pass muster in the Bay Area.*

We are concerned about the closure of BofA's San Francisco headquarters and the transfer of decisionmaking to Charlotte. North Carolina is a long way from California-- in miles-- and light years away, we believe, in attitude.

Our concerns are not relieved by word that global operations will be based in San Francisco; such operations will be looking west to the Pacific Rim and will not be concerned about jobs and customer relations in the rest of the Bay Area.

More generally, we are concerned about the reduction of competition in this merger, as well as other proposed mergers in banking. *With fewer banks, who will be compelled to offer free checking, free ATMs, and true customer service?*

Before any decisions are made, we ask that the Federal Reserve convene regional hearings, including one in the Bay Area. We ask that Mr. McColl and Mr. Coulter personally attend the hearings, and personally respond to questions. We ask that the public comment period be extended until every relevant analysis has been made public and given time for thorough review. We also ask that current discrimination cases against NationsBank be released for public review.

Mergers don't tend to favor consumers, and don't tend to favor small businesses. BofA customers are our constituents, and we voice our concerns on their behalf.

Sincerely,



Mary King
ABAG President and
Alameda County Supervisor

Conrad W. Hewitt
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Napa, California 94558

(707) 259-1079

Testimony on July 9, 1998 before the Federal Reserve Board, San Francisco, California

Concerning the proposal by the National Bank Corporation, Charlotte, North Carolina, to merge with Bank America Corporation, San Francisco, California

My name is Conrad W. Hewitt. For over the past three years, I served as the State Superintendent of Banks and the Commissioner of Financial Institutions for the State of California. My term ended this past June 30th, 1998. Prior to my position with the State of California, I was a Managing Partner in the firm of Ernst & Young. For over 33 years, I specialized in financial institutions. Consequently, I have been involved in many mergers and acquisitions of financial institutions.

During the past three years, in my capacity as State Superintendent of Banks and as Commissioner, I have approved a number of bank mergers and acquisitions. The largest acquisition was Wells Fargo acquiring First Interstate Bank. The California State laws concerning the sale, merger and conversion of depository corporations are very similar to the federal agency's laws, such as the Federal Reserve.

As a regulator, I had several standards to consider under California banking law, before I could approve or deny such a transaction. Some of the elements of the law included:

1. the transaction will not result in a monopoly
2. Competition will not be lessened or be anti-competitive
3. The convenience and needs of the community will be served
4. The shareholder's equity will be adequate and the financial condition of the combined banks will be satisfactory
5. Directors and executive officers will be satisfactory
6. The surviving entity will afford reasonable promise of successful operation and will be operated in a safe and sound manner

In my opinion, this proposed merger meets all of the standard to be considered under the Bank Holding Company Act.

I note that the proposed transaction does not result in the largest bank in the United States. Also, this merger will operate in only 25 of the 50 states. I publicly stated over three years ago, that there would be consolidation in the banking industry. I had many reasons for this statement and I believe that this trend will continue. There is too much capacity in the banking industry, too many banks and too much competition from outside the banking industry. Thus the need to consolidate. Even the largest US banks

face tremendous competition from companies such as: Merrill Lynch, GE Capital, General Motors Acceptance Corporations, all mutual funds, such as Fidelity, T. Rowe Price, Household Finance and now the internet. Many of these companies are not subject to state and federal regulatory law, as the banks presently are.

Other reasons for this merger are:

1. The high cost of investment in technology helps drive the mergers and consolidations. The non-bank competitors have invested heavily in technology and banks must invest just as much, if not more, in order to compete and survive. This investment requires a larger capital base, and one way to create this base is through consolidation.

2. Our largest U.S. banks are still small compared to the other banks in the world, which are comprised of the Japanese, German and French banks. The U.S. is rapidly becoming a global player and world trader. Our banks must be large enough to provide the financing and capital necessary for our businesses to compete world-wide.

3. Because there is very little overlap in this merger concerning the consumer, the consumer need and convenience should be satisfied. Branch banking has changed dramatically in the past five years because of ATM usage, banking by phone, computer banking and banking by mail. The consumer has dictated this shift in the delivery system of banks. The consumer has a wide choice and availability of financial institutions from which to choose. As I said earlier, the competition is fierce. This transaction should

enhance the service and products available to the customers of the new bank. This is truly an interstate bank merger as contemplated by the federal Riegle-Neal Interstate Banking and Branching and Efficiency Act of 1994, which Congress passed , with the law becoming effective September 29, 1994. As a result, the consumer will be the benefactor of one of the few, real interstate banks in our country.

Considering the other aspects of this proposed acquisition, both companies are financially strong, as indicated by their financial statements, capital and operating ratios and market capitalization.

If this transaction is approved by the Federal Reserve Board and, in my opinion it should be, then a nationwide franchise will be created which has the potential to deliver financial service to millions upon millions of families and businesses.

Thank you for allowing me to testify and I will be pleased to answer any questions.

Panel 18

TESTIMONY OF
CRAIG COLLETTE
AT THE HEARING OF THE FEDERAL RESERVE BANK OF
SAN FRANCISCO ON
PLANNED MERGER OF NATIONSBANK AND BANK OF AMERICA

JULY 10, 1998
SAN FRANCISCO

CRAIG COLLETTE
PRESIDENT,
MARATHON NATIONAL BANK, LOS ANGELES
AND MEMBER, CALIFORNIA INDEPENDENT BANKERS
BOARD OF DIRECTORS

Thank you for the opportunity of addressing this very important topic before the Federal Reserve Bank of San Francisco. My name is Craig Collette, and I am a member of the Board of Directors of the California Independent Bankers and am President of Marathon National Bank, a \$75 million asset bank located on the West side of Los Angeles. As an independent banker with 33 years of experience, I would like to give you my views on the impact of this gigantic merger of Nationsbank and Bank of America.

I am speaking this morning on behalf of the California Independent Bankers which represents some 200 banks throughout the state.

Let me first address you as a concerned citizen of our state. When legislation was debated in Sacramento three years ago which enabled this kind of merger, the California Independent Bankers raised an important issue. What will the tax impact be of permitting out of state institutions to own large CA banks and shift their headquarters out of state? Little attention was given this critical question. As a concerned taxpayer in this state, I would like to raise the issue again and I would like to see some estimates or projections of what this merger will mean to CA taxpayers when the headquarters of the combined institutions shifts to Charlotte, NC. All of CA's three largest financial institutions are now owned by out of state entities.

As a community bank president I have additional views.

The US, with the passage of the Riegle-Neal bill, is moving from a diversified financial system to one characterized by a lopsided barbell with just a few very large banks at one end and a large number of independent banks at the other. To quote Hugh McColl, chief executive of Nationsbank, US banking will be "...a barbell-shaped industry with a dozen or half-dozen very large players on one end and four or five thousands boutiques on the other." On this issue we agree. But, what are the implications of such a structure?

INCREASED FINANCIAL CONCENTRATION MEANS LESS COMPETITION

Nationsbank and Bank of America's merger at \$60 billion is the largest between two American banks. The bank created by this merger will have 8.2% of the nations deposits--dangerously close to the 10% limit set by the Riegle-Neal bill. In a country of our size this is an enormous concentration of economic, financial and political power. Ironically this very merger will weaken California's voice in the US Congress. The interest of Hugh McColl will not parallel the interest of California.

Unfortunately, this trend toward mega mergers will probably continue given the overvalued asset base our own stock market has created. The trend toward mega mergers, and this includes this merger, is not healthy for Main Street where I come from, it is very risky for Wall Street, and it is bad for the Federal Reserve and other regulators who will have to bail out these mega giants when they are mismanaged, over speculate or reach too far in risk taking. These banks are the new super sized "too big to fail" varieties.

The evidence shows that increased concentration in the banking industry has not benefitted bank customers. The economies of scale that supposedly justify large bank mergers either do not materialize or are not passed on to customers. In addition, large interbank mergers reduce competition in ATM network markets as well as in credit card markets. Consider the following:

A. Larger banks charge higher fees. According to Bank Rate Monitor, none of the top 50 banks in the U.S. offer the least expensive checking accounts. In fact, those offering the most expensive checking accounts are banks involved in the latest mega mergers: Citibank and Nationsbank. The best deals are offered by smaller regional and community banks. And a 1997 study found a widening gap between large and small bank fees.

B. A Federal Reserve study found the average fees charged by multi state banks are significantly higher than those charged by single-state banks, even accounting for location and other factors that might explain the differences.

- C. Bank mergers have an adverse effect on consumer deposit pricing.** A Boston Federal Reserve Bank study of 499 bank mergers found the combined banks lowered interest rates paid on deposits regardless of the amount of competition in the market.
- D. Economies of scale?** The evidence suggests that the optimal size for a bank in terms of economies of scale, profitability and efficiency is between \$100 million and \$1 billion, quite a bit smaller than the \$300 to \$600 billion behemoths that will be created from the latest mergers. And a Harvard study showed that instances of improved operating results after a merger were due primarily to higher repricing, not economies of scale, suggesting the use of increased market power to raise prices. Given sufficient market power, large banks could price smaller competitors out of the market with below market rate loans or above market rate deposits.
- E. Small business lending receives short shrift in a world of ever-larger banks.** Generally, the percentage of small business lending is inversely proportional to bank size. And mergers involving small banks tend to increase small business lending while mergers of large banks tend to reduce it.
- F. Large interbank mergers will also have negative effects on competition in ATM network markets.** ATM network mergers typically follow big bank mergers. And the current merger mania is paving the way for an oligopolistic ATM network market owned by a handful of the nation's largest banks. Essentially, these banks control the pricing, policies and functionality of the nation's ATM networks. Given this control, large banks could limit access for community banks and their customers by imposing anti-competitive and discriminatory pricing, membership requirements, operating rules or technological barriers. Access at a fair price to ATM and other electronic financial services networks is critical for community banks to insure their customers also have fairly and competitively priced access to these networks to transact their banking business.
- G. Large bank mergers are creating an oligopoly of credit card issuers led by Citicorp, Banc One and Nationsbank.** Today, under the Visa or MasterCard joint venture umbrella, thousands of community banks are issuers of credit and debit cards, set their own pricing and terms, and have the national and worldwide acceptance essential for their card viability. Unfortunately, we believe that increasingly the large banks will promote their own brands to the detriment of the Visa or MasterCard brand. And as the Visa and MasterCard brand names are undermined or destroyed, this would be to the detriment of competition and to thousands of community financial institutions and their customers. We will be back in a tightly controlled card environment detrimental to both consumers and small merchants.

In conclusion, as an independent bank president, I am fully aware that in the beginning, community banks will prosper from the fallout of customers from big bank mergers. After these giants consolidate however, there will no longer be a fair and equitable competitive environment for independent banks in the areas I have pointed out in my testimony. Bank customers and small business will suffer as a result.

Expanded remarks of Craig Collette's testimony before the Federal Reserve Bank of San Francisco on planned merger of NationsBank and Bank of America, July 10, 1998.

Increased Financial Concentration Means Less Competition

Effect on Prices, Small Business Lending and Economies of Scale

We should examine empirically the economic impacts of recently-consummated interbank mergers. What have been their real effects, on access to banking services by consumers, and on convenience? What have been their observable effects on the level of fees and charges, and related phenomena such as minimum balance requirements? Have fees gone down and services expanded, as the proponents of these mergers would have us believe? Or, have fees to consumers gone up as large banks have become increasingly bureaucratized and oblivious to the needs of their customers?

A. Larger Banks Charge Higher Fees:

In fact, the body of evidence shows that increased concentration has not benefitted bank customers, who correctly perceive an across-the-board increase in fees and charges. According to a March 1998 Checking Account Pricing Study of 350 banks nationwide conducted by Bank Rate Monitor, none of the top 50 banks in the U.S. offer the least expensive checking account. The best deals are offered by smaller regional and community banks. Ironically, the banks offering the most expensive checking accounts turned out to be none other than the

banks involved in the latest round of proposed megamergers: Citibank, San Francisco; Barnett Bank, Tampa (merging into NationsBank); NationsBank, Tampa; and NationsBank, Orlando.

B. Federal Reserve Study:

The Federal Reserve Board's Annual Report to the Congress on Retail Fees and Services of Depository Institutions (June 1997) found that the average fees charged by multistate banks are significantly higher than those charged by single-state banks, even accounting for the role of locational and other factors that might explain differences in the level of fees charged. And a 1997 study by the U.S. Public Interest Research Group, *Big Banks, Bigger Fees*, found a widening fee gap between large and small banks as fees climbed at big banks, while dropping at small ones. In the previous two years, fees at large banks had risen 3 percent, but fell 2 percent at small banks.

C. Bank Mergers have an Adverse Effect on Consumer Deposit Pricing:

A recent paper by two economists (Simons and Stavins) at the Federal Reserve Bank of Boston questions whether antitrust enforcement has been sufficiently vigorous since mergers have an adverse effect on consumer deposit pricing. Their study of 499 bank mergers found the combined banks lowered interest rates paid on deposits regardless of the amount of competition in the market. In short, there is reason to believe that the vaunted "efficiencies" to be realized by interbank mergers are not in fact being passed along to the consumers. If not to consumers, then to whom?

D. Economies of Scale?

Equally important, we question whether interbank mergers really present the opportunities of increased efficiency that their proponents claim. One recent study indicates that, except below a relatively low threshold in terms of combined assets, bank mergers do not in fact result in the realization of increased efficiency through economies of scale—a common economic rationale for horizontal mergers in any industry. Several other studies (including those conducted by the Harvard Business School and the Federal Reserve Bank of Atlanta) found no significant cost savings or profit improvement (measured as return on assets or gross operating income) as a result of mergers. Ironically, in the Harvard Business School study of New England bank mergers, instances of improved operating results (such as improvement in *net interest margin*) was due primarily to higher repricing rather than economies of scale, which strongly suggests the use of market power to raise prices, and again raises antitrust concerns. Given sufficient market power, large banks could price smaller competitors out of the market with below market rate loans or above market rate deposits.

We suspect that economies of scale may actually become negative once a merged banking entity exceeds some critical mass, because the increased costs of management and bureaucratization will at some point overwhelm any theoretical economies of scale. The evidence suggests that the optimal size for a bank in terms of economies of scale, profitability and efficiency is between \$100 million and \$1 billion. An analysis of the largest 100 banks in the May 1998 issue of *USBanker* shows that as a general rule the largest banks have poorer asset quality, lower profitability, less efficiency and weaker capitalization than the smaller banks on the list.

E. **Small Business Lending Receives a Short Shrift in a World of Ever Larger Banks**

The effect of interbank mergers on small business lending is also of concern, as small business lending receives short shrift in a banking world of ever larger entities. Generally, the percentage of small business lending is inversely proportional to bank size. According to another Federal Reserve Bank of Boston analysis (Peek and Rosengren), banks under \$100 million involved in bank mergers on average had 16 to 19 percent of their loan portfolios in small business loans, while banks over \$1 billion involved in bank mergers had on average 6 percent of their loan portfolios in small business loans. And interestingly, small bank acquirers tend to increase small business lending while large acquirers tend to reduce it. Peek and Rosengren note that several recent studies have found small business lending is also growing faster at small banks than large, and that large acquirers are less likely to expand in this sector. They found that banks with less than \$100 million or more than \$3 billion of assets each had asset growth of about 24 percent from June 1993 to June 1996, yet growth in small business lending (loans under \$1 million) was 42 percent at the small banks but only 3 percent at the large banks.

In sum, the recent trends favoring consolidation in the banking industry are coupled with widely-held suspicions that (i) realized efficiencies are overstated or non-existent, and/or (ii) the benefits of such efficiencies as may be realized are not being shared with bank customers, and (iii) increased market power is used to raise prices.

Effect on ATM Network and Credit Card Markets

F. ATM Network Markets:

A key concern in large interbank mergers, and one that does not get the attention it warrants, is the effect on ATM networks. Market concentrations resulting from bank mergers and acquisitions have potential anti-competitive implications for ATM network markets (specifically control of ATM switches).

ATM networks are joint ventures between competing banks. ATM networks are self-regulated, private sector entities, owned and controlled in the majority of cases by large banks, that set their own pricing and related operating rules subject only to the constraints imposed by the antitrust laws. Given the structure of ATM networks, certain anti-competitive aspects are inherent. For community banks, these anti-competitive aspects are more pronounced as they generally have little influence over network fees, bylaws or operating rules. Access at a fair price to ATM and other electronic financial services networks is critical for community banks to insure their customers also have fairly and competitively priced access to these networks to transact their banking business.

Big bank mergers affect ATM networks in two ways. First, ATM network mergers typically follow. For example, NationsBank and First Union acquisitions in the South prompted the merger of the Honor and Most ATM networks (NationsBank owns 30 percent, the largest single share, of the Honor network). NationsBank's purchase of Boatmen's Bancshares of Missouri prompted Honor's acquisition of the BankMate network in St. Louis formerly owned by

MasterCard and three smaller networks. Currently, First Chicago owns 30 percent of the Cash Station network and 25 percent of Magic Line. Banc One owns 20 percent of Electronic Payment Systems, Inc. which operates the MAC network. The pending Banc One/First Chicago merger could result in mergers of all of these networks. (Interestingly, EPS/MAC entered into a consent decree with the Department of Justice in 1994 agreeing to cease certain anti-competitive practices that caused over 1,000 banks, particularly small banks, thrifts and credit unions, to pay higher, noncompetitive prices for ATM transaction processing.)

In the short term, the industry's merger mania is rapidly paving the way for an oligopolistic ATM network market owned by a handful of the nation's largest banks. Essentially, these banks control the pricing, policies and functionality of the nation's ATM networks. Given this control, large banks could limit access for community banks and their customers by imposing anti-competitive and discriminatory pricing, membership requirements, operating rules or technological barriers. Since network policies directly affect the ability of community banks and other small financial institutions to offer competitive ATM services for their customers, they must be allowed to participate fairly in the governance of ATM networks in order to protect these interests.

We note that under current law, the Federal Reserve has the authority to approve or veto ATM network mergers or mergers of other payments processing entities owned by banks. In the past, the IBAA has urged the Federal Reserve to consider the electronic banking markets when determining whether a proposed bank merger/acquisition passes antitrust tests. We have urged the Federal Reserve to ensure that its competitive impact analysis evaluates: 1) the market power of a network brand, 2) fees, 3) routing rules, 4) third-party processing requirements, and 5) other factors that could be used to disadvantage community banks.

The second way big bank mergers can effect ATM networks is that, over the long term, large banks could transfer their transaction processing from regional ATM networks to their in-house operations. BankAmerica Corp. is currently the largest ATM owner, and its merger partner NationsBank is second. Together they control more than 15,000 machines--a number that is comparable to multibank shared networks such as Pulse or NYCE. The Banc One/First Chicago merger will result in the nation's second largest ATM owner with almost 10,000 machines. (By contrast, all community banks combined own fewer ATMs than NationsBank/Bank of America.) Excess capacity could be created in existing regional electronic networks as large banks pull transactions out of the network as a consequence of mergers. If this excess capacity is not shifted to smaller financial institutions, the consumer of electronic payment services will have less and less choice. And the customers of community banks, savings and loan associations and credit unions could be forced out of electronic commerce by pricing and other decisions of the fewer and fewer network owners.

G. Credit Card Markets:

We have a major anti-competitive concern in the credit card area. Large bank mergers could create an oligopoly of credit card issuers led by Citicorp, Banc One and NationsBank. Citibank is currently the largest issuer of credit cards with 65 million cards outstanding. Banc One/First Chicago combined will hold the number two spot with 53 million cards. NationsBank/Bank of America combined will have 24 million cards outstanding. Once the pending mergers are consummated, the top ten credit card issuers will control 72 percent of the credit card market. according to Robert McKinley of RAM Research in Frederick, Md.

Under today's rules of the game, by using the Visa or MasterCard umbrella, thousands of community banks are issuers of credit and debit cards and set their own pricing and terms. Thousands of community banks and their credit and debit card customers can tie into the Visa and MasterCard brands, which confers on the cards the national and worldwide acceptance essential for the cards' viability. Like ATM Networks, the two card associations, Visa and MasterCard are joint ventures and all competing member banks enjoy the strength of two brands that are recognized and accepted around the world.

We have already heard the ad "Don't think Visa, think Citibank Visa" (i.e., it's not just a Visa Card, it's a Citibank Visa Card). It is our concern that down the road the ad you hear from Citibank or Banc One will jettison the Visa or MasterCard brand name in favor of a credit card or debit product that they exclusively own and control. And with the destruction of the Visa or MasterCard brand names, combined with large banks' long-term goal to destroy the FDIC symbol now on every bank door, enormous financial concentration to their benefit and to the detriment of thousands of community financial institutions and their customers will have been achieved. And then the consumer will suffer because we will be back in the brave new world where every credit card issuer charges a \$35 annual fee and a 19.6 percent interest rate regardless of market interest rate fluctuations. And the taxpayer will suffer when the inevitable occurs, and a large financial conglomerate Titanic goes down.

At best, the card brands will be systematically weakened to the detriment of smaller issuers forcing them out of the business because they will not have the marketing budgets to compensate. Historically, Visa and MasterCard have offered baseline marketing and enhancement packages that virtually any size member bank could take advantage of. Increasingly the large issuers will not be willing to support such product parity preferring instead

to use their considerable influence to assure their own cards stand out. This in turn, will hinder cooperative brand advertising serving to obscure the message to consumers that other Visa and MasterCard offers are available, not just a "Citibank Visa."

Consumers will not only be disadvantaged by choice limits and higher pricing, some will find themselves "de-marketed" from the card product entirely. With increased consolidation and less competition, large issuers will begin to look for other ways to improve profits. For example, some issuers are already "de-marketing" by eliminating value-added enhancements, changing terms, assessing inactive fees and using other disincentives to discourage transactors, those consumers who pay off their balance each month to avoid finance charges. In addition to simply not offering the card product or raising annual fees, the grace period will be reduced or eliminated as the large card issuers focus on the more profitable revolvers, i.e. those who maintain a balance from month to month and pay finance charges, in a sort of reverse discrimination. In Canada today, where only a few large banks exist, most cards carry a high annual fee, \$25 to \$39, and reduced grace periods, from no grace period to just over 17 to 21 days (Office of Consumer Affairs of Industry Canada, Feb. 1998). Revolvers on the other hand will be held captive with higher annual percentage rates (APRs) applied using the highest possible compounded calculation methods and no grace periods along with higher late fees, over-limit fees and risk-based pricing.

Small merchants will also be affected. Already, the core interchange rates that form the basis for merchant pricing favor large merchants which are generally contracted with large banks. Just a few years ago, most of the large banks had bailed out of the merchant business leaving it fragmented and primarily in the hands of non-banks and small community banks. Now the big banks are back with a vengeance and have the clout to win market share. In

today's electronic world and with linkages to other commercial services, it will become increasingly difficult for smaller players to compete. With large card bases, the mega banks can also offer special, targeted promotions that will further tie merchants and consumers forcing out the smaller players, primarily community banks. Once the competition is eliminated, merchants, especially small businesses, will have little choice but to pay whatever rates are charged.

The California Independent Bankers (CIB) represents some 200 independent financial institutions throughout California and is politically active on behalf of its members in Sacramento and Washington DC. It is the California Affiliate of the Independent Bankers Association of America which has over 5,500 independent bank members nationwide.

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

*Panel 19
Kathryn Su
speaking
Matt
Lee*

July 10, 1998

Ms. Dolores S. Smith
Presiding Officer
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, CA 94105

**RE: ICP's Attached Testimony To Be Presented by the
California Reinvestment Committee**

Dear Presiding Officer Smith, members of the Panel:

This letter confirms that the California Reinvestment Committee is authorized and invited to present the attached testimony at the Public Meeting on July 10, 1998. For your information, our organization presented CRC's testimony at the Public Meeting on the Travelers-Citicorp proposal, held at the Federal Reserve Bank of New York on June 25, 1998. We thank CRC for returning the favor, and note that we will be submitting further written comments on or behalf July 16, 1998. If you have any questions, please telephone me at (718) 716-3540.

Very Truly Yours,
Matthew Lee
Matthew Lee, Esq.
Executive Director

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 ALSO ON BEHALF OF THE NEW MEXICO
ALLIANCE AND BLACK CITIZENS FOR JUSTICE, LAW AND
ORDER), IN OPPOSITION TO THE APPLICATIONS OF
NATIONSBANK TO ACQUIRE BANKAMERICA & ITS SUBSIDIARIES
FEDERAL RESERVE BANK OF SAN FRANCISCO

JULY 10, 1998

Good morning, 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 ^{known as} "ICP"), which the California Reinvestment Committee has been kind enough to present. ICP on May 6 filed a 54-page protest to this application, along with Black Citizen for Justice, Law and Order of Dallas, Texas, and the New Mexico Alliance, two of whose members, Gilbert Sanchez and Robert Wells, you heard from yesterday. We are opposed to this proposed merger, primarily due to NationsBank's continued predatory and discriminatory practices through its finance companies NationsCredit and EquiCredit, and due to the anticompetitive and branch closing effects the proposed merger would have in New Mexico and in Dallas, Texas. NationsBank's ill-defined Community Reinvestment pledge does nothing to address these issues -- in fact, as explained in a moment, NationsBank's

failure to live up to its commitment with regard to NationsCredit call into question whether the Board could rely on NationsBank's press release pledge.

In 1996, when NationsBank announced its proposal to acquire Boatmens Bancshares, including its subsidiary Sunwest, the largest bank in New Mexico, ICP and the New Mexico Alliance filed comments with the Federal Reserve Board. We critiqued the lending of NationsBank and its higher than normal interest rate finance company, NationsCredit, and documented that NationsBank was referring applicants ^{who were} (disproportionately African Americans and Hispanics) from its banks to NationsCredit, which offers higher than normal interest rate credit, but that NationsCredit had no policy or program to refer "up" to NationsBank applicants who were entitled to normal interest rate credit. We showed that NationsBank has been closing branches in low income communities of color, and has been opening NationsCredit offices in these communities. The Board refused to conduct an examination of NationsCredit, but did ask NationsBank how many lawsuits were pending against NationsCredit. NationsBank submitted a skeletal list of 119 lawsuits then pending against NationsCredit. We showed that the list was incomplete -- but even if it were not, it would seem that that volume of litigation would trigger some examination by the Federal Reserve. During that protest, NationsBank's CRA Officer was quoted in U.S. News & World Report to the effect that NationsCredit would institute a practice of referring applicants who were entitled to normal interest rate loans up to NationsBank's banks, from NationsCredit, and that this would be done by February 1997.

NationsBank refused thereafter to provide information about NationsCredit or this promised change. In January of this year, we were informed by the Office of the Comptroller of the Currency that NationsCredit has still not instituted any "referral up" program. NationsBank has since confirmed this, proffering as its excuse that there has been "a lot of turn over" at NationsCredit. Most recently, the Federal Reserve itself asked NationsBank to describe all current and planned referral programs between its banks, mortgage company and finance companies. NationsBank's response has been that everything is in flux.

Simply put, NationsBank's \$350 billion Community Reinvestment commitment is not credible, since NationsBank has not lived up to its previous commitments. It is also important to note that NationsBank has refused to make any more specific geographic commitments, at even the state, much less county, level. But the key point, to us, is that NationsBank's promises of future improvements -- do not in fact take place.

After NationsBank bought Boatmen's and Sunwest, NationsBank quickly closed eight branches in New Mexico, even though there was not overlap between NationsBank and Sunwest. The Federal Reserve has said, in its NationsBank-Boatmens conditional approval order, that it would "monitor" NationsBank's branch closings, but this has had little to no effect. More recently, after gaining approval to acquire Barnett Banks of Florida, NationsBank has moved to close over 200 branches in Florida.

In this proposal, NationsBank and Bank of America overlap in New Mexico and Dallas. NationsBank has again refused to disclose how many or

which branches it would close; it has also put forth a laughably low divestiture proposal, that would allow it to dominate and raise prices in Dallas and a number of New Mexico markets. NationsBank has apparently paid numerous groups to come and testify in its support at this public meeting, but the fact, as they say, are the facts:

--NationsBank said it would institute a referral up program from NationsCredit to its banks by February 1997, and NationsBank DID NOT DO SO.

--This proposed merger would be anticompetitive in Dallas and numerous New Mexico markets, and NationsBank's divestiture proposal is sorely insufficient.

--NationsBank has refused to disclose what the actual effects of the merger would be, including in branch closings.

There are other adverse issues, including the foreseeable loss of various Bank of America programs, ably raised by the California Reinvestment Committee 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 July 16, 1998. Thank you.

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

ADDENDUM TO

TESTIMONY OF MATTHEW LEE, INNER CITY PRESS/COMMUNITY
ON THE MOVE (AND ALSO ON BEHALF OF THE NEW MEXICO
ALLIANCE AND BLACK CITIZENS FOR JUSTICE, LAW AND
ORDER), IN OPPOSITION TO THE APPLICATIONS OF
NATIONSBANK TO ACQUIRE BANKAMERICA & ITS SUBSIDIARIES

FEDERAL RESERVE BANK OF SAN FRANCISCO

JULY 10, 1998

On behalf of Inner City Press/Community on the Move, the New Mexico Alliance ("NMA"), and Black Citizens for Justice, Law and Order ("BCJLO") (collectively hereinbelow, "ICP"), this addendum analyzes the 1996 lending of NationsBank Corp.'s banks, NationsBanc Mortgage Co. ("NMC") and EquiCredit, a higher than normal interest rate lender owned by NationsBank. As demonstrated below, NationsBank's normal interest rate lenders disproportionately deny and exclude African Americans and Hispanics (protected classes under the Fair Housing Act and the Equal Credit Opportunity Act), while EquiCredit targets people of color for higher than normal interest rate credit. This makes out a prima facie case of pricing discrimination within NationsBank Corp., and militates for an on-site examination of

EquiCredit and NationsCredit, and for the denial of NationsBank Corp.'s acquisition applications.

First, examples of NationsBank's banks, in 1996 (the most recent year for which HMDA data is publicly available):

NationsBank of Texas, N.A., in 1996 denied 47% of mortgage loan applications from African Americans, and only 20% of applications from whites, for a denial rate disparity of 2.35-to-1, significantly higher than that of the industry as a whole. As demonstrated below, NationsBank's higher than industry average denial rate disparities for minorities cannot be explained or justified by greater than average outreach to minority communities.

NationsBank of Kentucky, N.A., in 1996 denied 42% of applications from African Americans, and only 16% of applications from whites, a denial rate disparity of 2.63-to-1, much higher than other banks.

In the Memphis MSA in 1996, NationsBank of Tennessee, N.A., denied 49% of applications from African Americans, versus only 19% of applications from whites, for a denial rate disparity of 2.58-to-1, higher than the industry average in this MSA. Meanwhile, NationsBank of Tennessee had a higher market share of loans to whites than to African Americans in this MSA, rebutting any claim that NationsBank's bank's denial rate disparities are excused by greater than average outreach to minorities. NationsBanc Mortgage Corp. in this MSA is no better: while also having a higher market share of loans to whites than to African Americans, it has a denial rate disparity between African Americans and whites of 2.25-to-1.

Nationwide, NationsBanc Mortgage Corp. ("NMC;" by far the largest of NationsBank Corp.'s HMDA-reporting mortgage lenders) in 1996 had a higher than 2-to-1 denial rate disparity between African Americans and whites. As demonstrated below (in connection / comparison's to NationsBank's EquiCredit's 1996 lending in the same MSAs), NMC's record in particular markets is much worse. For example, in the Dallas, Texas MSA (headquarters of protestant Black Citizens for Justice, Law and Order) in 1996, NationsBanc Mortgage denied 36% of applications from African Americans, and only 10% of applications from whites, a denial rate disparity of 3.6-to-1, much higher than the industry's average in this MSA of 1.89-to-1. Meanwhile in this MSA, NationsBanc Mortgage had a higher market share of loans to whites than to African Americans - NMC's outrageous

denial rate disparity is NOT explained by greater than average (or even average) outreach to African Americans.

In the San Antonio, TX MSA in 1996, NationsBanc Mortgage denied 50% of applications from African Americans and only 9% of applications from whites, for a denial rate disparity of 5.56-to-1, much higher than the industry average in this MSA of 1.57-to-1. Meanwhile in this MSA, NMC had a 3.5 times higher market share of loans to whites than to African Americans. In this MSA in 1996, NMC denied Hispanics 2.11 times more frequently than whites (compared to an industry average in this MSA of 1.70-to-1), while having a 1.5 times higher market share of loans to whites than to Hispanics. Again, NMC's outrageous denial rate disparity is NOT explained by greater than average (or even average) outreach to African Americans.

In the Austin, TX MSA in 1996, NMC denied 21% of applications from Hispanics, versus only 8% of applications from whites, for a denial rate disparity of 2.63-to-1, while making 356 loans to whites and only 35 to Hispanics (and only 20 to African Americans), entirely inconsistent with the demographics of (and other lenders' lending in) this MSA.

In the El Paso-Dona Ana County (TX-NM) MSA in 1996, NationsBanc Mortgage denied 24% of applications from Hispanics, while denying only 10% of applications from whites, for a denial rate disparity of 2.4, higher than the industry average in this MSA (less than 2-to-1). These disparities are not explained by greater than average outreach to minorities: in this MSA, NMC had a higher market share of loans to whites than to Hispanics, as did NationsBank of Texas, N.A..

In the Washington, D.C. MSA in 1996, NationsBank, N.A. denied 42% of applications from African Americans, and only 19% of applications from whites, for a denial rate disparity of 2.21, higher than the industry average in this MSA (less than 2-to-1). NationsBanc Mortgage was even worse in this MSA: it denied African Americans 4.2 times more frequently than whites, while having a 3.25% market share of loans to whites, and only a 1.66% market share of loans to African Americans. The denial rate disparities are not explained by any greater than average (or even average) outreach to people of color.

* * * * *

NationsCredit, despite being a major mortgage and home equity lender, refuses to report HMDA data. While in some

markets ICP and its affiliates are reviewing NationsCredit's lending by recorded mortgages, and while some legal newspapers report *lis pendens* (see, e.g., New York Law Journal of May 28, 1997, reporting NYC *lis pendens* of / for NationsCredit Home Equity Services Corp.), it is difficult without HMDA data to conduct the type of analysis set forth *infra* as to EquiCredit. ICP maintains that NationsCredit is violating HMDA. Most recently, ICP has been informed, by a HUD representative, that the FRB is responsible for the HMDA-reporting (and HMDA compliance) all of BHC subsidiaries, and has been directed to FRB HMDA compliance staff. More forthcoming (on NationsCredit/fair lending)- but consider the following comparison of NationsBanc Mortgage Corp.'s normal interest rate lending versus NationsBank's EquiCredit's high interest rate lending, in the same MSAs and states, making out a *prima facie* case (or raising a red flag) of pricing discrimination and disparate treatment within the current NationsBank Corporation:

In the Albuquerque, NM in 1996, NationsBanc Mortgage denied 42% of mortgage applications from Hispanics, and only 14% of applications from whites (a denial rate disparity of 3-to-1). NMC originated 24 loans to whites, and only 7 to Hispanics. This Comment will call loans to the protected class (Hispanics or African Americans) divided by loans to whites the "Index." NMC's Index in this MSA in 1996 was 0.292. Meanwhile in this MSA, the higher interest rate EquiCredit originated 43 loans to Hispanics, and 50 loans to whites -- Index of 0.860, 2.95 times higher than NMC's. NMC disproportionately denies people of color; NationsBank's EquiCredit disproportionately targets people of color for higher interest rate credit.

In the Atlanta GA MSA in 1996, NationsBanc Mortgage denied 17% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 2.43). NMC originated 2,211 loans to whites, and 541 to African Americans. NMC's Index (see *supra*) in this MSA in 1996 was 0.245. Meanwhile in this MSA, the higher interest rate EquiCredit originated 80 loans to African Americans, and 71 loans to whites -- Index of 1.127, 4.6 times higher than NMC's.

In the Augusta GA MSA in 1996, NationsBanc Mortgage denied 19% of mortgage applications from African Americans, and

¹ The ratio between NMC's Index and NationsBank's EquiCredit's Index, calculated for each market analyzed above, can be viewed as / called the "Disparity (or Targeting) Index".

only 8% of applications from whites (a denial rate disparity of 2.38). NMC originated 333 loans to whites, and only 78 to African Americans. NMC's Index in this MSA in 1996 was 0.234. Meanwhile in this MSA, the higher interest rate EquiCredit originated 19 loans to African Americans, and 14 loans to whites -- Index of 1.357, 5.8 times higher than NMC's.

In the Bakersfield CA MSA in 1996, (obviously relevant to this proposed merger), NationsBank Mortgage made 10 loans to whites, and only one to a Hispanic, Index of 0.100). Meanwhile, EquiCredit made four loans to Hispanics and eight to whites, Index of 0.500, five times higher than NMC's.

In the Baltimore, MD MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 17% of mortgage applications from African Americans, and 11% of applications from whites (a denial rate disparity of 1.55 -- see infra). NMC originated 695 loans to whites, and only 112 to African Americans. NMC's Index in this MSA in 1996 was 0.161. Meanwhile in this MSA, the higher interest rate EquiCredit originated 174 loans to African Americans, and 171 loans to whites -- Index of 1.018, 6.3 times higher than NMC's. EquiCredit reported the same (1%) denial rate for African Americans and whites, contrary to NMC's denial rate disparity of 1.55-to-1.

In the Buffalo NY MSA in 1996, NationsBank originated 61 loans to whites, and only one loan to an African American. NMC's Index in this MSA in 1996 was 0.013. Meanwhile in this MSA, the higher interest rate EquiCredit originated 52 loans to African Americans, and 62 loans to whites -- Index of 0.836, 64.3 times higher than NMC's.

In the Charleston SC MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 33% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 4.71). NMC originated 915 loans to whites, and only 63 to African Americans. NMC's Index in this MSA in 1996 was 0.069. Meanwhile in this MSA, the higher interest rate EquiCredit originated 10 loans to African Americans, and 15 loans to whites -- Index of 0.667, 9.67 times higher than NMC's.

In the Charlotte NC MSA (in NationsBank's CRA assessment area - NationsBank's headquarters MSA) in 1996, NationsBank Mortgage denied 16% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 2.29). NMC originated 2,207 loans to whites, and only 298 to African Americans. NMC's Index in this MSA in 1996 was 0.135. Meanwhile in this MSA, the higher interest rate EquiCredit originated 53 loans to

African Americans, and 83 loans to whites -- Index of 0.639, 4.73 times higher than NMC's.

In the Charlottesville VA MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 22% of mortgage applications from African Americans, and only 9% of applications from whites (a denial rate disparity of 2.44). NMC originated 234 loans to whites, and only 27 to African Americans. NMC's Index in this MSA in 1996 was 0.115. Meanwhile in this MSA, the higher interest rate EquiCredit originated 4 loans to African Americans, and 8 loans to whites -- Index of 0.500, 4.35 times higher than NMC's.

In the Chicago IL MSA in 1996, NationsBank Mortgage denied 25% of mortgage applications from Hispanics, and 19% of applications from African Americans, and only 8% of applications from whites. NMC's denial rate disparity for Hispanics was 3.13; for African Americans it was 2.38. NMC originated 1,080 loans to whites, and only 37 to Hispanics and only 33 to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.034, for African Americans it was 0.031. Meanwhile in this MSA, the higher interest rate EquiCredit originated 345 loans to African Americans, 32 to Hispanics, and 164 to whites -- Index for African Americans of 2.104, 67.9 times higher than NMC's.; Index for Hispanics of 0.195, 5.7 times higher than NMC's.

In the Cincinnati OH in 1996, NationsBank Mortgage originated 169 loans to whites, and only THREE to African Americans. NMC's Index in this MSA in 1996 was 0.018. Meanwhile in this MSA, the higher interest rate EquiCredit originated 8 loans to African Americans, and 54 loans to whites -- Index of 0.148, 8.22 times higher than NMC's.

In the Cleveland OH MSA in 1996, NationsBank Mortgage denied 20% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 2.86). NMC originated 251 loans to whites, and only 12 to African Americans. NMC's Index in this MSA in 1996 was 0.048. Meanwhile in this MSA, the higher interest rate EquiCredit originated 191 loans to African Americans, and 154 loans to whites -- Index of 1.240, 25.8 times higher than NMC's.

In the Dallas TX MSA (in NationsBank's CRA assessment area) in 1996, as partially analyzed *supra*, NationsBank Mortgage denied 36% of mortgage applications from African Americans, and only 10% of applications from whites (a denial rate disparity of 3.60). NMC originated 917 loans to whites, and only 77 to African Americans. NMC's Index in this MSA in 1996 was 0.084. Meanwhile in this MSA, the higher interest

rate EquiCredit originated 7 loans to African Americans, and 13 loans to whites -- Index of 0.538, 6.40 times higher than NMC's.

In the Danville VA MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 11% of mortgage applications from African Americans, and only 5% of applications from whites (a denial rate disparity of 2.20). NMC originated 50 loans to whites, and only 8 to African Americans. NMC's Index in this MSA in 1996 was 0.160. Meanwhile in this MSA, the higher interest rate EquiCredit originated 6 loans to African Americans, and 5 loans to whites -- Index of 1.200, 7.5 times higher than NMC's.

In the Dayton OH in 1996, NationsBank Mortgage originated 111 loans to whites, and only THREE to African Americans. NMC's Index in this MSA in 1996 was 0.027. Meanwhile in this MSA, the higher interest rate EquiCredit originated 82 loans to African Americans, and 151 loans to whites -- Index of 0.543, 20.11 times higher than NMC's.

In the Detroit, MI MSA in 1996, NationsBank Mortgage denied 32% of mortgage applications from African Americans, and only 8% of applications from whites (a denial rate disparity of 4-to-1). NMC originated 350 loans to whites, and only 12 to African Americans. NMC's Index in this MSA in 1996 was 0.034. Meanwhile in this MSA, the higher interest rate EquiCredit originated 156 loans to African Americans, and 296 loans to whites -- Index of 0.527, 15.5 times higher than NMC's.

In the Fort Worth TX MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage originated 423 loans to whites, and only 17 to African Americans. NMC's Index in this MSA in 1996 was 0.040. Meanwhile in this MSA, the higher interest rate EquiCredit originated 4 loans to African Americans, and 4 loans to whites -- Index of 1.000, 25 times higher than NMC's.

In the Greensboro NC MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 21% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 3-to-1). NMC originated 703 loans to whites, and only 122 to African Americans. NMC's Index in this MSA in 1996 was 0.174. Meanwhile in this MSA, the higher interest rate EquiCredit originated 105 loans to African Americans, and 191 loans to whites -- Index of 0.550, 3.16 times higher than NMC's.

In the Greenville SC MSA (in NationsBank's CRA assessment area) in 1996, NationsBank Mortgage denied 27% of mortgage

applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 3.86). NMC originated 936 loans to whites, and only 67 to African Americans. NMC's Index in this MSA in 1996 was 0.072. Meanwhile in this MSA, the higher interest rate EquiCredit originated 33 loans to African Americans, and 104 loans to whites -- Index of 0.317, 4.4 times higher than NMC's.

In the Hartford CT in 1996, NationsBanc Mortgage originated eight loans to whites, and none to African Americans. Meanwhile in this MSA, the higher interest rate EquiCredit originated 41 loans to African Americans, and 44 loans to whites.

In the Houston TX MSA in 1996, NationsBanc Mortgage denied 17% of mortgage applications from African Americans, and only 8% of applications from whites. NMC's denial rate disparity for African Americans was 2.13. NMC originated 603 loans to whites, and only 96 to African Americans. In this MSA in 1996, NMC's Index was 0.160. Meanwhile in this MSA, the higher interest rate EquiCredit originated 9 loans to African Americans, and 15 to whites -- Index for African Americans of 0.600, 3.75 times higher than NMC's.

In the Jackson MS in 1996, NationsBanc Mortgage originated 39 loans to whites, and none to African Americans. Meanwhile in this MSA, the higher interest rate EquiCredit originated 52 loans to African Americans, and 34 loans to whites.

In the Jacksonville FL MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 36% of mortgage applications from African Americans, and only 9% of applications from whites (a denial rate disparity of 4-to-1). NMC originated 208 loans to whites, and only five to African Americans. NMC's Index in this MSA in 1996 was 0.024. Meanwhile in this MSA, the higher interest rate EquiCredit originated 16 loans to African Americans, and 29 loans to whites -- Index of 0.552, 23.0 times higher than NMC's.

In the Kansas City MO MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 20% of mortgage applications from African Americans, and only 6% of applications from whites (a denial rate disparity of 3.33-to-1). NMC originated 388 loans to whites, and only four to African Americans. NMC's Index in this MSA in 1996 was 0.010. Meanwhile in this MSA, the higher interest rate EquiCredit originated 25 loans to African Americans, and 60 loans to whites -- Index of 0.417, 41.7 times higher than NMC's.

In the Los Angeles CA MSA in 1996, NationsBanc Mortgage originated 1,251 loans to whites, and only 126 to Hispanics and only 24 to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.101, for African Americans it was 0.019. Meanwhile in this MSA, the higher interest rate EquiCredit originated 26 loans to African Americans, 39 to Hispanics, and 24 to whites -- Index for African Americans of 1.083, **57.0 times higher than NMC's**; Index for Hispanics of 1.625, **16.1 times higher than NMC's**.

In the Memphis TN MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 18% of mortgage applications from African Americans, and only 8% of applications from whites (a denial rate disparity of 2.25-to-1). NMC originated 176 loans to whites, and only 65 to African Americans. NMC's Index in this MSA in 1996 was 0.369. Meanwhile in this MSA, the higher interest rate EquiCredit originated 248 loans to African Americans, and 52 loans to whites -- Index of 4.769, **12.9 times higher than NMC's**.

In the Nashville TN MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 20% of mortgage applications from African Americans, and only 6% of applications from whites (a denial rate disparity of 3.33-to-1). NMC originated 1,525 loans to whites, and only 72 to African Americans. NMC's Index in this MSA in 1996 was 0.047. Meanwhile in this MSA, the higher interest rate EquiCredit originated 101 loans to African Americans, and 182 loans to whites -- Index of 0.555, **11.8 times higher than NMC's**.

In the New York NY MSA in 1996, NationsBanc Mortgage originated 31 loans to whites, and only two to Hispanics and only 7 to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.065, for African Americans it was 0.226. Meanwhile in this MSA, the higher interest rate EquiCredit originated 10 loans to African Americans, 3 to Hispanics, and 8 to whites -- Index for African Americans of 1.250, **5.5 times higher than NMC's**; Index for Hispanics of 0.375, **5.8 times higher than NMC's**.

In the Norfolk VA MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 20% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 2.86-to-1). NMC originated 988 loans to whites, and only 100 to African Americans. NMC's Index in this MSA in 1996 was 0.101. Meanwhile in this MSA, the higher interest rate EquiCredit originated 42 loans to African Americans, and 21

loans to whites -- Index of 2.000, **19.8 times higher than NMC's.**

In the Oakland CA MSA in 1996, NationsBanc Mortgage denied 33% of mortgage applications from African Americans, and only 15% of applications from whites (a denial rate disparity of 2.2-to-1). NMC originated 923 loans to whites, and only 30 to African Americans. NMC's Index in this MSA in 1996 was 0.033. Meanwhile in this MSA, the higher interest rate EquiCredit originated 27 loans to African Americans, and 28 loans to whites -- Index of 0.964, **29.2 times higher than NMC's.**

In the Philadelphia PA MSA in 1996, NationsBanc Mortgage originated 209 loans to whites, and only seven to African Americans. In this MSA in 1996, NMC's Index was 0.033. Meanwhile in this MSA, the higher interest rate EquiCredit originated 218 loans to African Americans, and 51 to whites -- Index for African Americans of 1.083, **129.5 times higher than NMC's.**

In the Phoenix AZ MSA in 1996, NationsBanc Mortgage originated 446 loans to whites, and only nine to Hispanics and only two to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.020, for African Americans it was 0.004. Meanwhile in this MSA, the higher interest rate EquiCredit originated 14 loans to African Americans, 41 to Hispanics, and 198 to whites -- Index for African Americans of 0.070, 17.5 times higher than NMC's; Index for Hispanics of 0.207, 10.3 times higher than NMC's.

In the Raleigh-Durham NC MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 20% of mortgage applications from African Americans, and only 5% of applications from whites (a denial rate disparity of 4-to-1). NMC originated 944 loans to whites, and only 131 to African Americans. NMC's Index in this MSA in 1996 was 0.139. Meanwhile in this MSA, the higher interest rate EquiCredit originated 28 loans to African Americans, and 21 loans to whites -- Index of 1.333, **7.2 times higher than NMC's.**

In the Richmond VA MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 23% of mortgage applications from African Americans, and only 7% of applications from whites (a denial rate disparity of 3.29-to-1). NMC originated 1,010 loans to whites, and only 198 to African Americans. NMC's Index in this MSA in 1996 was 0.196. Meanwhile in this MSA, the higher interest rate EquiCredit originated 91 loans to African Americans, and 46

loans to whites -- Index of 1.978, 10.1 times higher than NMC's.

In the Riverside CA MSA in 1996, NationsBanc Mortgage originated 119 loans to whites, and only 17 to Hispanics and only seven to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.143, for African Americans it was 0.059. Meanwhile in this MSA, the higher interest rate EquiCredit originated 14 loans to African Americans, 19 to Hispanics, and 44 to whites -- Index for African Americans of 0.318, 5.4 times higher than NMC's; Index for Hispanics of 0.432, 3.0 times higher than NMC's..

In the Roanoke VA MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage denied 12% of mortgage applications from African Americans, and only 5% of applications from whites (a denial rate disparity of 2.4-to-1). NMC originated 275 loans to whites, and only 13 to African Americans. NMC's Index in this MSA in 1996 was 0.047. Meanwhile in this MSA, the higher interest rate EquiCredit originated 3 loans to African Americans, and 9 loans to whites -- Index of 0.333, 7.1 times higher than NMC's.

In the Sacramento CA MSA in 1996, NationsBanc Mortgage originated 634 loans to whites, and only 24 to Hispanics and only 12 to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.037, for African Americans it was 0.019. Meanwhile in this MSA, the higher interest rate EquiCredit originated 3 loans to African Americans, 4 to Hispanics, and 31 to whites -- Index for African Americans of 0.097, 5.1 times higher than NMC's; Index for Hispanics of 0.129, 3.5 times higher than NMC's.

In the St. Louis MO MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage originated 363 loans to whites, and only eight to African Americans. NMC's Index in this MSA in 1996 was 0.022. Meanwhile in this MSA, the higher interest rate EquiCredit originated 191 loans to African Americans, and 288 loans to whites -- Index of 0.663, 30.1 times higher than NMC's.

In the San Diego CA MSA in 1996, NationsBanc Mortgage originated 522 loans to whites, and only 12 to Hispanics and only six to African Americans. In this MSA in 1996, NMC's Index for Hispanics was 0.023, for African Americans it was 0.011. Meanwhile in this MSA, the higher interest rate EquiCredit originated three loans to African Americans, seven to Hispanics, and 14 to whites -- Index for African Americans of 0.214, 90.9 times higher than NMC's; Index for Hispanics of 0.500, 22.7 times higher than NMC's.

In the Santa Fe NM in 1996, NationsBanc Mortgage originated 16 loans to whites, and only one to a Hispanic household. NMC's Index in this MSA in 1996 was 0.063. Meanwhile in this MSA, the higher interest rate EquiCredit originated 5 loans to Hispanics, and 5 loans to whites -- Index of 1.000, 15.9 times higher than NMC's.

In the Tucson AZ MSA in 1996, NationsBanc Mortgage originated 75 loans to whites, and only two to Hispanics and only one to an African American. In this MSA in 1996, NMC's Index for Hispanics was 0.027, for African Americans it was 0.013. Meanwhile in this MSA, the higher interest rate EquiCredit originated six loans to African Americans, 20 to Hispanics, and 32 to whites -- Index for African Americans of 0.188, 14.5 times higher than NMC's; Index for Hispanics of 0.625, 23.1 times higher than NMC's.

In the Tulsa OK MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage originated 124 loans to whites, and only one to an African American. NMC's Index in this MSA in 1996 was 0.008. Meanwhile in this MSA, the higher interest rate EquiCredit originated 21 loans to African Americans, and 44 loans to whites -- Index of 0.477, 59.6 times higher than NMC's.

In the Washington DC MSA (in NationsBank's CRA assessment area) in 1996, partially analyzed above, NationsBanc Mortgage denied 21% of mortgage applications from African Americans, and only 5% of applications from whites (a denial rate disparity of 4.2-to-1). NMC originated 2,851 loans to whites, and only 442 to African Americans. NMC's Index in this MSA in 1996 was 0.155. Meanwhile in this MSA, the higher interest rate EquiCredit originated 100 loans to African Americans, and 48 loans to whites -- Index of 2.083, 13.4 times higher than NMC's.

In the Wilmington DE MSA in 1996, NationsBanc Mortgage originated 36 loans to whites, and only two to African Americans. NMC's Index in this MSA in 1996 was 0.056. Meanwhile in this MSA, the higher interest rate EquiCredit originated 54 loans to African Americans, and 77 loans to whites -- Index of 0.701, 12.5 times higher than NMC's.

In the Wilmington NC MSA (in NationsBank's CRA assessment area) in 1996, NationsBanc Mortgage originated 202 loans to whites, and only nine to African Americans. NMC's Index (see *supra*) in this MSA in 1996 was 0.045. Meanwhile in this MSA, the higher interest rate EquiCredit originated 4 loans to African Americans, and 15 loans to whites -- Index of 0.267, 5.9 times higher than NMC's.

The above analysis makes out a *prima facie* case (and/or red flag) that NationsBank Corp., through its normal interest rate lenders including NationsBanc Mortgage and through its higher interest rate lenders, including EquiCredit (and NationsCredit) are engaged in lending discrimination, including pricing discrimination. On this record, the FRB must conduct on-site fair lending examinations of EquiCredit, NationsCredit and NMC. On the current record, this mega-merger proposal, which would expand NationsBank Corp.'s practices, must be denied.

ICP can be reached at (718) 716-3540.

July 10, 1998

My name is Regina Blosser. I am board secretary for the Oceanview Merced Heights - Neighbors in Action. We are a public safety and neighborhood improvement organization in the Oceanview area of San Francisco.

The Federal Reserve sent me a copy of the "Bank of America closure policy adopted by the Social Policy Committee of Bof A on September 14, 1993. I wish to read it to you, item by item, and then tell you how we perceive that BofA does not follow its own closure policy.

1. BankAmerica is obviously not committed to serving our community because it closed our only bank in the Ocean View district in March of 1997.
2. BofA did not strive to do anything to minimize the negative impact in our community. In fact, phone calls we make to the Community Development Department have not been returned most of the time.
3. If there was a review and concurrence of the Corporate Community Development department, we were never shown any documentation of this review. We want to see this review.
4. Again, we wish to see the review of the closure recommendations. We would like to see if this review includes the prediction of the negative impacts our merchants have experienced, such as loss of deposit and change making services and the time that neighbors must use in their day to go to a bank now.
5. If there was an action plan to mitigate the adverse impacts on our community, we have not seen any representative or action from BankAmerica since our branch closure in March of 1997.
6. BankAmerica chose the Geneva-Mission branch to be the receiving branch. This branch is more than a mile away from our closed branch. Anyone dependent on public transportation must transfer to another bus to get there. A large freeway creates a barrier to access to this branch from our neighborhood.
7. Our community, the Oceanview district of San Francisco has a racially diverse and working class population. In the 1950's it became majority African American. Income levels on average are low by San Francisco standards because we have many retired and affordable housing residents.
8. We have no other banks in the Ocean View district. The BankAmerica Corporate Community Development department could and can easily see that.
9. We tried to help the branch stay open. We promised the district manager that we would find 900 new customers for the branch if it would only stay to give us a chance. We stated in many letters from our churches and organizations that the branch was important to us and our merchants. We gathered petitions and protested publicly. Again, BankAmerica's evaluation was already made and the bank evaluation was not going to be changed by our efforts.
10. The only level of service offered to us was to direct us to a branch a mile away.

11. We suggested security service at the ATM's and we requested a shuttle for disabled and seniors to the receiving branch. These ideas were disregarded by bank executives.

I am submitting a map with my testimony that shows all branches located in San Francisco. The green circles indicate a $\frac{1}{2}$ mile distance from all branches. Blank areas are usually industrial, park land or residential with ~~no~~ commercial zone. You can see that many BankAmerica branches in our neighborhood commercial districts are less than one mile from each other. The red area is our neighborhood. The yellow lines show where banks are so numerous that the street has 3 or more banks per block. Neighbors by the yellow lines complain that they would like to have something besides banks on their commercial strips. You will be able to see that our neighborhood, when compared to other parts of the city has less banking service than the rest of San Francisco.

Numerous nonprofits have come to you to state their satisfaction with these banks' financing of their programs. This is fine but the only thing our neighbors and merchants want is a bank! We feel no desire for charitable giving.

Supervisor Jose Medina passed a resolution unanimously at our Board of Supervisors that urged the Bank of America to stay or find another bank for our neighborhood. The BankAmerica did not comply with his resolution because we have no bank. When the Moyer's Office of Economic Development suggested that Sterling Bank could move into the vacated BankAmerica branch building, Bof A refused to remove its ATM's so Sterling would not move in to the building. We have tried to find a credit union would serve our neighbors but the American Bankers Association lawsuit against credit unions won at the Supreme Court level has presently stopped our efforts to use a credit union.

We want to take care of ourselves. We are trying to stop the decline of our neighborhood commercial district. We have asked our neighbors to make contacts with banks to invite them to open a branch on Ocean Avenue. So far no luck. Perhaps if BankAmerica had followed its own closure policy, our neighborhood would be much better off today.

BA, NT+SA

Bank of America Branch Closure Policy September 1993

- ① Bank of America is committed to providing access to banking services to all members of its community through both physical branches and teleservicing. Furthermore, the Bank will reasonably strive to minimize any negative impact on the community.
- ③ Review and concurrence by Corporate Community Development must be an integral part of California Retail Banking's branch closure decision process.
- ④ Once a branch has been identified for potential closure, a representative from Corporate Community Development will review closure recommendations to ensure that any potential negative impacts on the communities in its serving area are identified and included in subsequent considerations. An action plan to mitigate any adverse impacts on the community or its residents must be developed and integrated into the closure plan prior to the final closure decision being made, and approval given by Corporate Community Development's senior officer.
- ⑥ Community factors to be considered when a proposed branch closure is being evaluated must include; distance to the receiving branch, the economic and ethnic characteristics of the impacted communities, the presence (or lack there of) of other financial service companies in the closing branch's serving area, pending economic development activities, the effect on service levels provided the entire community, particularly low-and moderate-income segments of the community, and other relevant considerations. Because each branch is unique, each proposed closure is evaluated on the basis of its individual circumstances and performance.
- ⑩ Prior to closing offices, Bank of America assesses the potential impact on its ability to continue offering appropriate levels of service to the local community. This assessment includes taking into consideration information and ideas obtained from members of the community to minimize the impact of an office closing.

Adopted September 14, 1993 by Social Policy Committee



Thomas Bros. Maps
GOLDEN GATE
SAN FRANCISCO

SAN FRANCISCO
SOUTH BAY
PACIFIC OCEAN
MERCED
OCEAN

AREAS OUTLINED IN RED DEMONSTRATE
SAN FRANCISCO REAL ESTATE BOARD
MULTIPLE SERVICE DISTRICTS



Panel 20



SAN FRANCISCO
CHAMBER OF COMMERCE

Federal Reserve Hearing

**Testimony Regarding
BankAmerica/NationsBank**

Presented by
**G. Rhea Serpan, President & CEO
San Francisco Chamber of Commerce**

Friday, July 10, 1998

My name is Rhea Serpan and I am the President & CEO of the San Francisco Chamber of Commerce. I appreciate this opportunity to speak on behalf of the Chamber in regards to the proposed merger of BankAmerica with NationsBank.

Since its founding in the city in 1904, BankAmerica has been integral to the development of San Francisco's business community. The bank has been a long-standing member of the Chamber of Commerce. Mr. A. P. Giannini served on our board of directors, and that representation continues today. BankAmerica has generously supported the Chamber's many activities, including providing resources to business development programs and contributing both expertise and funding.

- **SF Works:** BankAmerica has contributed \$250,000 over three years to SF Works, the welfare-to-work initiative created by the Chamber, Committee on Jobs and United Way.
- **San Francisco Partnership:** BankAmerica has been generous in contributing to economic development projects, including a multi-year investment in the San Francisco Partnership, a public-private partnership

launched by the Chamber to attract and retain business and jobs in San Francisco.

- **BASHOF, Business Arts Council and LSF:** BankAmerica has been a strong supporter and contributor to the BASHOF Youth Fund, Business Arts Council, Business Volunteers for the Arts and Leadership San Francisco.

Throughout its history, BankAmerica has been an involved and responsible corporate participant in the San Francisco community.

- **Small Business Investment:** BankAmerica recognizes that small businesses are the job-creation engine of our economy, and has made a substantial investment in San Francisco-area firms. Currently, BankAmerica has small business loan commitments in the Bay Area that total \$708 million. *(Counties include Alameda, Contra Costa, Marin, San Francisco, San Mateo and Santa Clara.)*
- **Affordable Housing:** Since 1990, the bank has loaned \$235.5 million to support construction of 4,500 affordable housing units in the region.
- **Charitable Giving:** BankAmerica has contributed \$14 million in the past three years to the arts, education and health and human services, including \$5 million in support of the United Way of the Bay Area.

The Chamber fully expects BankAmerica to continue to play an important leadership role in our community. We believe that as their business grows, and it will, their corporate involvement will expand.

BankAmerica's merger with NationsBank, along with the announced merger of Wells Fargo Bank with Northwest Bank, will reaffirm San Francisco as a national and global banking center. BankAmerica is expected to fully participate in our region's growth and to benefit from the strategic advantages of doing business in San Francisco.

San Francisco is the center of a strong and growing Bay Area economy. It is the gateway to the Asian marketplace and the place where Silicon Valley does its banking.

While there will undoubtedly be some job dislocation, new job opportunities will be created as a result of this merger. It is, of course, too early to estimate with any accuracy what the net effect might be on jobs, but the combined strengths of the two banks creates the potential for job growth that may not have been otherwise possible. It is significant that the combined bank's corporate and investment banking headquarters will be in San Francisco.

The Chamber is proud of the strengths of our community and confident in the continued growth of our economy. We strongly believe BankAmerica will continue to be a major contributor to both.

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July 10, 1998

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To: Federal Reserve Bank of San Francisco
Attn: Joy Hoffmann Molloy, Community Affairs Officer

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Panel X



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Attn: Joy Hoffmann Molloy, Community Affairs Officer**

Ladies and Gentlemen, The Arizona Hispanic Chamber of Commerce is pleased to have the opportunity to testify on behalf of the proposed Bank of America/NationsBank merger. In an era of decreasing public assistance to individuals of low and moderate income and small, women or minority owned businesses, banks, with the encouragement of the Community Reinvestment Act and the conscience of its board members, are a major source of hope to those who dream of home or small business ownership. Institutions such as Bank of America have been a source, both directly and indirectly, of credit and capital to those who lack access to conventional financial services through innovative products and community partnerships. The current industry trend of bank consolidation poses serious questions for those of us who work with financial institutions in an effort to encourage investment, leveraging, financing and creation or preservation of jobs in less affluent communities. However, our experience with Bank of America has led us to conclude that the proposed merger will result in a continuation and/or expansion of the bank's commitment to serving poor and diverse communities.

Bank of America has been an active member and strong corporate partner of the Arizona Hispanic Chamber of Commerce since 1980. In addition, it was a founding member of the *Los Amigos de AHCC*, a corporate advisory group that provides both financial and business value to the AHCC and its small business members. Bank of America's recognition, understanding and commitment to the growing Hispanic market is borne out in two key areas for AHCC: 1) DATOS, Focus on Arizona's Hispanic Market, an annual publication and presentation of AHCC, with the Bank as premier sponsor; and 2) Minority Business Development, the Bank has committed both financial and technical assistance to the mission of our Greater Phoenix Minority Business Development Center. Also, a member of the bank staff serves on our Board of Directors and its bank officers and staff regularly participate in AHCC business seminars, host networking mixers to highlight procurement opportunities and serve as speakers in our business education series: *NxLevel* and *Su Plan de Negocio*.

Bank of America has also demonstrated a commitment to diversity in the boardroom, at all levels of management and in a unique bilingual customer service, *CuentaTel*. Through partnerships with organizations like others and ours, it supports training to consumers, business owners and others who play a promising and important role in developing the social and economic fabric of America. Most importantly to AHCC, the merger presents new opportunities for the local business community. A nationwide network that has greater access to global financial markets is consistent with the growing presence of mutual customers seeking to retain and expand their business success. It also presents greater ease of service for individual consumers whose mobility is a vital part of an expanding economy.

AHCC expects the activities previously mentioned to continue after the merger of the two institutions. I want to reiterate that based on experience, we feel confident that the bank will not only continue its outstanding community service but also seek new ways to efficiently and effectively serve the needs of a diverse customer base, both large and small.

Personally, my husband and I have been Bank of America customers since it assumed responsibility for the former Western Savings & Loan Association/Security Pacific institutions. That transition convinced me that it is possible to survive and thrive from change at Bank of America while maintaining a high level of customer service.

Thank you.

Testimony presented 7/10/98

Dolores Smith, Presiding Officer
Bank of America-Nations Bank Merger Public Hearing
Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California

Panel 20
Tierney

Presiding Officer Smith,

Thank you for the opportunity to provide testimony at this hearing. I have asked for this time to describe my very positive experiences working with the Bank of America Federal Savings Bank staff in Portland, Oregon. I am the Deputy Director in charge of community development for Community Action Team, a community-based nonprofit, antipoverty agency serving three rural counties in Northwest Oregon. Like many Community Action Agencies around the country, we provide a number of coordinated antipoverty programs such as Head Start, child and family development programs, Low Income Energy Assistance and homeless assistance. In the area of community development, we assist our communities with the development and rehabilitation of affordable housing, affordable home ownership, single family rehabilitation, and community facilities development.

My understanding of the Community Reinvestment Act requirements is that a lender is expected to actively seek ways to meet the credit needs of its community. As a community organizer working in a rural area, I find that communities define themselves, usually at populations no larger than 10,000 persons. In our three county service area, two communities are served by a single bank based in the three county area. All other commercial banking is done with banks which serve nearly the entire state or, in most cases, many states. Given the realities of the commercial banking industry in the 1990's each of our communities must look outside the community for some, or all, of its banking needs.

While working in our communities, I have been approached by local bankers representing several banks. With one exception, these bank officials have understood very little about community development. Rather than the offering a useful partnership, they have sought information and offered referral services. Bank of America has been different. In our community development work, no bank, local or otherwise, has supported our community development efforts like Bank of America Federal Savings Bank.

In the last eight years, I have arranged three loans with the help of the Bank of America staff. I have also arranged one with statewide nonprofit bank consortium and one with a government agency. The difference in support and service is marked. For me, the irony of these experiences is simply breathtaking. I felt that I had to fight tooth and nail with the nonprofit and the government agency, to simply get good

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loans underwritten. In the case of the nonprofit and the state, I felt that my lending partner was seeking to underwriting the transaction in ways that reduced my agency's development and operating cushions so low that it would deny us sufficient capacity to continue to our work.

Working with the Portland Bank of America staff is an entirely different experience. They appear to be actively planning for our future. The Bank's staff have encouraged us to take on new roles, increasing our efficiency and effectiveness. During campaigns to organize and develop the capacity of other nonprofits working in my three-county service area, I have received the Bank's support in the form of time, expertise and money. The Bank's staff has taken a personal interest in developing the capacity of my agency and me personally. This has taken the form of scholarships, supportive information and advice.

I cannot speak about any of Bank of America's CRA work except that which goes on in Portland. Nor do I have any experience with Nations Bank. However, I can say that Bank of America and its Portland staff have made a huge difference in our ability to do our work.

Thank you,

A handwritten signature in black ink, appearing to read 'James C. Tierney', with a long horizontal flourish extending to the right.

James C. Tierney
Deputy Director

Panel 20

Federal Reserve Bank of San Francisco
Bank America/NationsBank Merger Hearing
July 10, 1998

Joann Hauger
Community Housing Resources of Arizona
500 East Thomas Road, Suite 300
Phoenix, Arizona 85012

I am executive director of Community Housing Resources of Arizona (CHRA) a HUD-approved housing counseling agency which was established in 1987 to promote fair housing and equal housing opportunity for residents of Phoenix. In 1990, we expanded our services to include prepurchase counseling and affordable homeownership programs. In the 8 years since then, over 2,100 low and moderate income families have completed our counseling program and become homeowners and over 600 low-income and minority households have received downpayment assistance grants. On average, our agency puts 27 families per month into their own home.

In order to make the dream of homeownership a reality for lower income and minority households, Community Housing Resources relies heavily on the support of financial institutions. Over the last 6 years, Bank of America Arizona has been instrumental in our success by providing significant funding and management support. We sincerely hope our mutually beneficial relationship with the bank will continue after the merger is completed.

Bank of America has recognized the value of prepurchase counseling in preparing lower income households for homeownership by contracting with CHRA to provide prepurchase counseling for low-income, first-time homebuyers. B of A has provided first mortgages for our clients and has given us generous grants to support our counseling program. These grants have not only provided operating funds, but have also provided the matching funds needed to secure government funding for downpayment assistance grants and homeownership counseling.

In addition to the financial contributions, Bank of America Arizona employees, James Rayburn, Juan Salgado and Darryl Tenenbaum have unselfishly helped and guided the agency by providing hundreds of hours of management service. They have all served on the CHRA board of directors and have provided technical assistance which ensured that the agency's goals and mission have been achieved.

As a director since 1990, Jim Rayburn has saved our organization thousands of dollars by providing countless hours of pro bono legal advice.

Community Housing Resources strives to provide homeownership opportunities for under-served populations including persons with disabilities and ethnic minority households. Over 60% of our clients are Hispanic and more than one-third of all counseling sessions are conducted in Spanish. Our main concern with the proposed merger is that our low income and minority clients will be under served by the creation of a much larger bank. We are, however, encouraged by recent articles describing NationsBank's increased efforts to serve the growing Hispanic community, and we trust that those efforts will extend to all traditionally under-served communities in Arizona.

We support the merger with the expectation that the current level of support for our organization, including employee involvement, will continue and that the new bank will provide increased homeownership opportunities for the low income and minority communities we serve.



UNITED INDIAN NATIONS COMMUNITY DEVELOPMENT CORPORATION

July 10, 1998

Lise Haws
Panel 21

Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105

RE: Nations/Bank of America Public Meeting Testimony

The United Indian Nations Community Development Corporation (UIN CDC) was incorporated in July 1997 as a California nonprofit, Section 501(c)(3) tax exempt corporation (EIN94-3255859). The aim of the UIN CDC is to develop housing and employment opportunities that are true to Native American culture and values to promote the economic and social well being for Native Americans in the San Francisco Bay Area. **UIN CDC has created an urban Indian initiative to acquire and develop property on closing military bases and other surplus federal lands that directly connect low-income communities to housing, employment, and revenue generating opportunities.** This initiative is a model development mechanism that can be replicated by urban and rural Native American organizations to mitigate negative impacts on our community from historical federal policies.

The Bureau of Indian Affairs' Relocation Programs, initiated in the early 1995s and continued until the early 1970s, created dramatic changes in the number and character of American Indian population in urban centers. As a direct result of these federal programs, more than 85,000 American Indians moved from reservations to urban areas and many other followed to join their extended families or find better employment or educational opportunities. According to the 1990 US Census, which undercounts Indian people overall, more than 65 percent of American Indians now live in urban areas. In addition, urban Indian populations have historically been excluded from federal, state and foundation funding targeted for Native American projects located on, or linked through the provision of a service or product to a reservation, rural community, or tribal government.

The San Francisco Bay Area Native American community is one of the largest and fastest growing Indian populations in the country. The 1990 US Census reported more than 40,000 Indians in the Bay Area. Although it is one of the smallest ethnic minority groups in the area, it is the third largest concentration of urban Indians in the United States. The demographic and socio economic stress of the Bay Area Indian community reflects the history that brought Indians to this area. These conditions exasperate the following socioeconomic and psychological problems which face the community:

Fastest growing urban Indian population in the country. The population has increased more than 600 percent since 1960. Following from this the Bay Area has a disproportionately large and growing population of young people -- approximately 40 percent under the age of 25 according to the 1990 US Census. Considering, suicide is the **second leading cause of death for Indian adolescents**, the need to meaningfully engage this growing population in moving towards family self-sufficiency is our highest priority. In order to engage these individuals we have to raise educational levels.

Bay Area Indians have considerably **lower educational attainment levels** than the general population. In 1990, nearly one in four American Indians had not earned a high school diploma or passed the

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equivalency test and only 15.2 percent completed college, half the proportion of the general population (30 percent). With recent changes in affirmative action policies regulation California's public universities it is likely that this number will decline. Following from this, we have to be prepared for unemployment rates to rise and poverty to persist.

Unemployment rates for American Indians are higher than those for other Bay Area residents. In 1990, nine percent of the community was unemployment, as opposed to 5 percent for the general population. Employed Bay Area American Indians, about 20,000 in 1990, tend to occupy blue-collar positions, very few are managers. Overall, the Bay Area American Indian population has a dramatically low average income. In 1990, their per capita income was \$14,034 compared with \$19,629 for the area as a whole. The proportion of American Indian families living in poverty (11 percent) was nearly twice as high as for all Bay Area families (6percent). Additionally, more than a third of Indian households headed by women were living in poverty (36 percent), compared to less than 20 percent for the total population.

A low proportion of Bay Area American Indians own property and denial rates for American Indian mortgage lending has risen steadily. Only about 40 percent of American Indian households owned homes in 1990, compared to 57 percent of all Bay Area households. Denial rates for American Indian mortgage lending increased from 27.8 percent in 1993 to 50.2 percent in 1996. Furthermore, many American Indians spend more than 35 percent of their income on housing costs.

Considering these statistics, it is not surprising that a three-year Indian Health Service report to Congress completed in 1991 found that **the health status of California American Indians was far below that of the rest of the population.** High mortality rates, substance abuse, and health risks for infants and children combined with a lack of health insurance to create a health care crisis.

UINCDC has acquired and is developing three significant projects in the East Bay:

Unity Village: a transitional housing and supportive service project at the Alameda Naval Air Station

American Indian Museum and Cultural Center: a regional educational museum at the Oak Knoll Naval Hospital

United Oakland Eco Park: a community driven redevelopment project for a 220-acre eco-industrail park with an employment and training campus at the Oakland Army Base.

In order for UINCDC to continue to revitalize our community and our neighbors in the East Bay, we need to have continued access to Bank of Americas levels and range of contributions for nonprofit infrastructure and continued support for projects that target very low-income urban communities. The Bank of American has been a positive CRA force in California, institutionalizing community reinvestment as a business through the Community Development Bank. Considerable expertise about community reinvestment as a business and about the needs of California communities has come to be housed at the Community Development Bank. Bank of America's Rural Initiative 2000 has targeted funding to reservations and rural American Indian projects bringing significant new benefits to those undeserved communities. A merger with Nations Bank should augment the current benefits to low-income communities in California and bring additional funding and range of services for urban Indian initiatives without reducing the current grassroots services provided by Bank of America. Thank you.

Sincerely,



Sally Gallegos
Executive Director

Panel 20



NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE
P.O. Box 907 • Stockton, California 95201-0907

Telephone: (209) 546-1669
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ROBERT "BOBBY" BIVENS
Member,
National Board of Directors

TESTIMONY OF

ROBERT "BOBBY" BIVENS

PRESIDENT NAACP STOCKTON BRANCH

AND NATIONAL BOARD MEMBER

PRESENTED BEFORE THE

FEDERAL RESERVE BANK BOARD

NATIONS / BANK AMERICA PUBLIC HEARING

SAN FRANCISCO, CALIFORNIA

JULY 9, 1998

Presiding Officer, Members of the Panel, my name is Bobby Bivens and I am a member of the National Board of Director's and President of the Stockton California Branch of the National Association for the Advancement of Colored People, generally known as the NAACP. I appreciate the opportunity to come before this body today to give testimony expressing concern and opposition for the public record regarding the proposed acquisition of Bank America Corporation by Nations Bank Corporation and to quote our Chairman of the Board of Directors the Honorable Julian Bond " bank mergers need to be opposed when the banks do not address the specific needs of minorities and the poor".

The NAACP was founded in 1909 and we are the oldest civil rights organization in America with over 200 units in California and over 1700 units across this nation and in several countries abroad. The NAACP has a long history of fighting for civil rights, economic and community development and self sufficiency for African Americans, other ethnic minority groups

and all disenfranchised people in America. While we remain focused on our founding principles we have in recent years taken a more aggressive and proactive approach to achieving economic and community empowerment.

Some of our concerns are:

- The \$350 billion announcement, while an impressive sum, nonetheless lacks the specificity and targeted lending, service and investment components needed in a full community reinvestment commitment. More specifically, it does not address the critical needs of California communities.
- The Banks have refused to make a specific and meaningful written commitment to California. They have verbally told me as a National Board Member representing the NAACP for the State of California and the Stockton CA. Branch and members of the CRC in meetings that they are allocating approximately \$70 billion to California - the same \$70 billion already allocated to this state under 1997's Bank of America \$140 billion lending goal. In other words, the Banks have not committed one additional penny to California, the state that will be the most impacted by this merger, that will lose the headquarters of its largest bank and that will see that Bank's successful community reinvestment program dismantled.
- No written commitment to provide specific products and services targeted at the unique needs and priorities of California's diverse regions and people.

- There is no written commitment to establish a “floor” goal, or targeting, for lending in this area the Central Valley of California for small businesses, nor any commitment to target loans or lines of credit of \$50,000. or less to small minority owned businesses.
- There is no written commitment to prioritize nonprofit housing developers, who will keep housing developments at the greatest level of affordability for the longest period of time.
- Nations Bank has a CDC which develops its own housing developments. The California Branches of the NAACP is concerned that, were it to function in a similar manner here in California, it would conflict directly with the state’s thriving infrastructure of non-profit housing developers. In negotiating meetings with the Banks, the California State Conference of the NAACP with CRC members have requested of the Nations Bank that they only do investment and lending, but no development, in California. Nations Bank has categorically refused to make such a commitment. Although the NAACP has a ongoing relationship with Nations Bank with our Community Development Resource Centers (CDRC’s) in other regions of the country, that does not have any impact on us in california, nor has BankAmerica been agreeable to the establishment of a similar program in california.
- There is no written commitment to continue Bank of America’s program of appointing a liaison to the community on Fair Housing issues.
- There is no written commitment to establish a secondary review process for declined consumer loan applications from minority and low income census tracts.

- There is no written commitment to develop program to provide venture capital to Minority Owned Businesses, especially those located in distressed and Rural areas.
- There is no evidence to adopt or commit to any written goals for purchasing a certain percentage of the goods and services it consumes in California from Minority Owned Vendors in California.
- There is no written commitment to continue Bank of America's existing agreement to 1) not close or consolidate any branch located in a low-income market as a result of the consolidation or closure of a Bank of America Branch.
- There is no written commitment to ensure that Minority employees will not be disproportionately affected by consolidation and branch closures.
- Bank of America's reinvestment program known as the Bank America Foundation may be dismantled and may be integrated into the central corporate structure in Charlotte.
- There is no written commitment to contribute a percentage of the Bank's earnings, either specifically to California or even in the \$350 billion announcement. This is out of step with every community reinvestment commitment has been negotiated and fought for by the NAACP.
- Finally regarding the bank's internal structure, the NAACP is extremely interested in the diversity goals regarding senior management and the governing board of directors. If the merger is approved and as the proposed new bank solidifies its diversity goals, objectives and policies, the NAACP will

continue to be a resource and monitor the financial institutions internal structure involvement.

Regarding the proposed acquisition of BankAmerica Corporation, the NAACP California State Conference of Branches, and Myself as a elected Member of the Board of Directors from California stand ready as resources to ensure that certian goals are met and matters are not overlooke, if a merger of the two institutions goes forward. We are extremly concerned about consumer protection, competition and economic expansion.

Successful and effective mergers are to lower costs, improve product quality or enhance efficiences. The proposed new bank's commitment to \$350 billion in community development lending and investment over the next ten years is an indication of an expected enhanced delivery of services resulting from the merger. 350 billion represents the largest community development commitment ever announced by a financial institution. This is an opportunity for organizations like the NAACP to challenge this bank and an opportunity for the new bank to live up to a bank's chartered role as an economic leader in communities.

Again thank you for the opportunity to appear before you today.



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paper 21

**TESTIMONY
OF
CHUCK PRINCE
EXECUTIVE DIRECTOR
OF THE
SOUTHEAST IDAHO COUNCIL OF GOVERNMENTS
POCATELLO, IDAHO
ON BEHALF OF THE
NATIONAL ASSOCIATION OF
DEVELOPMENT ORGANIZATIONS (NADO)**

**BEFORE THE
FEDERAL RESERVE BANK OF SAN FRANCISCO
ON THE PROPOSED MERGER OF
NATIONSBANK CORPORATION AND
BANKAMERICA CORPORATION**

**JULY 9, 1998
SAN FRANCISCO, CA**

Thank you for the opportunity to testify today on the proposed merger of NationsBank Corporation and BankAmerica Corporation. My name is Chuck Prince, and I am the Executive Director of the Southeast Idaho Council of Governments and a member of the National Association of Development Organizations, or NADO.

I am here today to express NADO's conditional support for the proposed merger.

NADO is a national association of regional development organizations serving rural and small metropolitan America. The association, a public interest group founded in 1967, provides its members with training, information, and representation, and has been a leader in promoting the interests of America's frequently forgotten small towns and rural regions.

Regional development organizations are multi-county planning and development districts that pool otherwise thin local resources across a region and are catalysts for cooperation between citizens and the public and private sectors. Most of America's rural areas and small towns, which are home to some 77 million people, are served by regional development organizations. One of the most important functions of these organizations is managing revolving loan funds that serve the credit needs of small, high risk businesses that cannot obtain a loan on their own through a private commercial bank. Often these revolving loans funds are the only available non-commercial source of credit, so they play an important role in economic development.

This brings me to the focus of our concerns and conditional support for the proposed merger. The most compelling reason we feel this merger should be approved is the \$350 billion/ten year commitment to community development lending made by Nations Bank - Bank of America on May 20, 1998. Simply put, this commitment is extraordinary and will have a long reaching impact, both in communities served by Nations Bank - Bank of America and in establishing a benchmark for future bank mergers.

However, even with the \$350 billion commitment, we believe the merger should be approved with very specific conditions:

1. First, that the Bank of America Community Development Bank be retained and expanded in both mission and function. The Community Development Bank is unique. Its vision statement, which reads in part: "to support community growth and prosperity by being the catalyst for or by forming public/private partnerships for funding," has lead directly to a work program which loaned over \$560 million for affordable housing in 1997. The Community Development Bank's great success is partially attributable to its outreach to the non-profit housing development network as a pool of partners and borrowers. And, recognizing that affordable housing lending requires specialized skills, many of the Community Development Banks' 300 staff were recruited from this non-profit network. The NationsBank-BankAmerica Corporation \$350 billion commitment includes \$115 billion for affordable housing. The only logical steward and conduit for these funds is the Bank of America Community Development Bank.

2. Second, using the Bank of America Community Development Bank's affordable housing development activities as a template, the merged bank should create an entity dedicated solely to community economic development. Just as the Community Development bank has reached out to non-profit housing development corporations for affordable housing partnerships, this new entity should reach out to the community economic development network including regional development organizations, for business and job creation ventures. Only by making an organizational and structural commitment to community economic development will the merged banks' actual lending and investments come close to matching the promises of its May 20, 1998 press release.

3. Third, we commend the NationsBank-Bank of America \$10 billion commitment to rural America. We ask that the purposes of this rural pool be sufficiently broad to include financing for community facility and infrastructure improvements. Many small cities, special districts and counties often find it difficult to finance city halls, jails, water and sewer systems, community centers and streets. Participation of the new BankAmerica in meeting these credit needs would be a valued contribution in efforts to better rural America.

4. Fourth, the merged bank has also pledged \$180 billion for small business lending and \$25 billion for economic development. To say that these are substantial amounts of needed capital is a gross understatement. However, we

are concerned that the lion's share of these funds will be used for government insured loans. While these loans are an important tool in job creation efforts, they truly represent little risk to the bank and only serve a narrow spectrum of the needs of the small business credit continuum. In order for these funds to have the greatest impact we believe a portion of these funds should be targeted towards:

1. Direct loans to higher risk borrowers including business start-ups;
2. Investments in and grants to the revolving loan funds of regional development organizations;
3. Creation of an accessible secondary market for loans made by regional development organizations through their revolving loans funds;
4. Development of venture capital pools at regional development organizations and other regional and multi-state intermediaries; and
5. Creation of a set-aside for small business lending and investment in rural and small metropolitan communities for ventures of any size. A recent NationsBank-Bank of America publication calls for only making loans to ventures creating more than 25 jobs in rural or lower and moderate income communities. This limitation is artificial and simply doesn't reflect the reality of job creation in rural America where 3 and 4 employees ventures are the rule and 25 employee ventures, the major exception.

Only by adding these higher risk type activities in with the safety of government insured financing will the merged bank begin to approach meeting the credit needs of small business.

In conclusion Mr. Chairman, NADO conditionally supports this merger. As stated at the outset, the \$350 billion commitment to community development lending and investment is unprecedented. However, translating funding commitment to real impact requires a focused plan of action. The plan should contain:

1. Retention of the Bank of America Community Development Bank;
2. Creation of an equivalent to the Community Development Bank, focusing on community economic development;
3. A vision of the community development needs of rural communities broad enough to include infrastructure finance; and
4. An approach to small business and economic development lending that features a rural set-aside and a mix of both government insured and non-traditional higher risk loans and investments.

Thank you for allowing me to speak to you today. I will be happy to answer any questions or provide additional information.

NADO

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Statement of Committee on Jobs

Federal Reserve Bank Hearing on Bank of America/NationsBank Merger

July 10, 1998

Good morning, my name is Mark Mosher. I am Executive Director of the Committee on Jobs, a coalition of 33 of San Francisco's largest private sector employers.

Our organization focuses on public policy issues affecting the City's economic vitality and quality-of-life. During its eight-year history, Jobs has organized corporate community involvement in a few key areas, including major youth hiring and welfare-to-work initiatives. It is in this context that I would like to address the proposed merger and what we believe to be Bank of America's post-merger commitment to San Francisco.

In every initiative Committee on Jobs has undertaken, whether it was our effort to replace cuts in the federal Summer Youth Employment Training Program or the organization of hundreds of business volunteers through Christmas in April, Bank of America has taken a leadership role. The Bank has demonstrated to us that this leadership role will not decline in the wake of the merger.

When the local business community came together to address the challenge of welfare reform, Bank of America led the way. Last year, the Bank contributed \$250,000 to found San Francisco Works, an effort to help transition 2,000 public assistance recipients into self-sufficiency over the next three years. Bank of America's involvement in this effort transcends checkbook philanthropy. Bank Chairman David Coulter has personally involved himself in the organization, participating in board meetings, loaning his staff to counsel San Francisco Works in current training methods and committing employment opportunities to program graduates. The Bank has communicated to us that its commitment in each of these areas will not decline after the merger.

I value Bank of America's role in San Francisco, and I was surprised and disappointed when I heard the headquarters would be moved to Charlotte. The move is definitely a blow to the City's prestige. However, in practical terms, David Coulter and half of the merged Bank's executive management team will remain in San Francisco, several key operations will remain headquartered in the City, and the deep spirit of community involvement fostered by the Bank's current leadership will continue.

We urge approval of the merger. Thank you.

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United Housing & Educational Development Corp

Panel 22

16150 N Oracle Rd
Tucson, AZ 85739

Phone 520-825-7942
Fax 520-825-7917

July 10, 1998

Federal Reserve Bank

Good afternoon My name is Edward Esquibel, I Am The Executive director of Untied Housing & Educational Development Corporation. United housing is a non profit 501C-3 organization Formed in 1990 in the state of Arizona that provides affordable housing in the Rural areas of Pima And Pinal Counties . United housing is currently under contract with the United states Dept. of agriculture , Rural Housing services , to operate and provide technical assistance under their 523 self help program . This program targets families in need of safe , decent affordable homes . Families qualify for a housing loan from Rural Development called the 502 direct loan program based on their income and need . The families income cannot exceed 80% of the areas median income. Subsidy is awarded to families based on family size and income . These families are considered low and very low based on the income standards

United Housing and Educational Development Corporation (UHEDC) is pleased to be a partner with Bank of America's Community Development Bank. Bank of America has already established an effective partnership which has enabled local self-help housing organizations like ours to expand the opportunity for self-help families to achieve homeownership . Bank of America in 1997 established It s Rural 2000 Initiative which is addressing rural concerns of reaching out to markets that either no service is available or is under served . Bank of America's rural 2000 initiative will make available funds , to provide mortgage loans by partnering with department of agriculture , as well with Fannie Mae to start the 502 direct blended loan program which is being piloted through the rural 2000 initiative . The 502 direct loan program current funding level is 1 billion dollars this fiscal year . This Rural Initiative is assisting Non profit organizations with Lines of Credit for construction loans and Infrastructure loans that will provide critical resources to facilitate the development of building sites for low-income families who , are willing to commit the time , and energy to build homes for themselves and their neighbors .

United Housing has demonstrated success in the development of self-help housing . In Fact , since 1990 , UHEDC has assisted 102 families in the successful construction of their homes through mutual self-help . The state of Arizona is currently Rank number two in the United States for providing self help homeownership Under the department of agriculture National self help program . United Housing was Nationally Recognized in 1996 by the Fannie Mae Foundation as the recipient of the Maxwell award of Excellence for the production of low income housing . At the same time , there are many families who are waiting for the opportunity to join with their neighbors to build better homes for themselves and their children . One of the continuing obstacles we face is the difficulty of acquiring affordable building sites . Bank of America funds through the Community Development Bank has assisted UHEDC in the development of suitable building sites .

The opportunity of this merger can provide greater resorces to nonprofits like ourselves in partnering with the federal resource dollars that had been available in the past to operated programs such as the self help program . The Bank of America / Nations bank , 350 billion dollars commitment to provide Funding resorces as I have discuss earlier will have a impact on rural areas markets that has been undeserved and misunderstood for years .

Bank of America has a proven track record in effectively managing The Community Development Bank by providing funds , which has created homeownership opportunities for hardworking , low-income families within our service area and throughout rural America .

Panel 22

United housing supports the Merger between Bank of America and Nations Bank
Thank you for the opportunity to speak on behalf of the families that we have served and United Housing

Sincerely,

Edward Esquibel
Executive Director

Panel 22

7-10-98

Good morning,

My name is Al Price and I am from Beaumont, Texas. I am a retired Captain for American Airlines. For the past 21 ½ years, I have served the citizens of Southeast Texas as their representative in the Texas House of Representatives. Today, I represent the Southeast Texas Community Development Corporation, Inc., which I serve as President. We are a 501(c) (3) organization, founded in 1993.

SETCDC currently serves the City of Beaumont, City of Port Arthur, City of Orange in addition to Jefferson and Hardin counties.

SETCDC is certified as a CHDO by the Texas Department of Housing and Community Affairs to serve rural Texas and certified as a CHDO by the Cities of Bbeaumont, Port Arthur, and Orange.

In the past five years SETCDC has completed new construction and rehab construction in excess of \$2.2 million. SETCDC anticipates new construction of 250 new homes and 100 rehabs over the next three years. We plan to expand SETCDC in developing affordable housing in rural East Texas.

Some eight years ago, when we were reviewing the lending practices of banks in our community, I met Ms. Cathy Bessant of NationsBank. She came to Beaumont to work with us to achieve the aims of the Community Reinvestment Act. She was very cooperative and helpful and I am pleased to know that she will be involved in this great effort.

Our organization has developed a business relationship with NationsBank which includes the arrangement of permanent financing of loans for our homeowners and builders. In this manner, we have been successful in addressing the housing and banking needs of a clientele that is traditionally below the regular commercial banking floor. Through our Homebuyer Education Program, we work with persons who are currently renters. We inform them, encourage them, cajole them--if necessary --spurring them to dare achieve the dream of homeownership.

Virtually every one of our clients utters in disbelief at closing, "I never thought I'll ever own my own home."

These are new homeowners. These are first- time homebuyers. These are new mortgages. This is new money being generated in our community. This is private enterprise doing what it can do best and do much better than the government. This is removing people from the public dole. This is putting housing and economic development in the

private sector-- without dependency on public funds.

Upon learning of the proposal of NationsBank to make \$350 billion available to address the needs of low-income and rural areas, I contacted NationsBank to discuss ways that we and they could partner with local officials and community leaders to plan and execute locally-conceived programs that will benefit the community as a whole, while concurrently achieving the goals of NationsBank and the Southeast Texas CDC.

This \$350 billion dollar infusion represents a pool of resources that will allow communities to do housing and economic development on a scale that will be both trend-setting and transforming--and if done correctly will allow a level of efficiency that can stretch these dollars farther.

I have submitted a proposal to NationsBank to establish a pilot program in a small county in Southeast Texas. This proposal, which could be quickly implemented, calls for our convening the county commissioners plus the mayors and council members of each city (with a population of at less than 10,000), along with officials of HUD, the state of Texas, local non-profit groups and the private sector for the purpose of assisting local communities in the creation of a plan for housing and economic development.

Such a procedure could be replicated anywhere and at will. Through SETCDC and other non-profits, NationsBank will be able to extend its financial tentacles into hamlets which are presently inaccessible, thereby transforming whole communities.

Homeownership is the cornerstone of safe, desirable neighborhoods, and therefore is essential to any plan to revitalize communities. People who own their own homes care about their streets, their property values and their schools. They generate business, they pay taxes, and more often than not, they vote. By providing safe, sanitary, desirable homes to low-to-moderate income families, CHDOs work to fend off the "renter's mentality"--with its emphasis on dependency, consumership and apathy-- and replace it with the "homeowner's mentality" with its emphasis on independence, productivity, and involvement.

Ladies and gentlemen, because I am so pleased to see this expression of corporate responsibility and goodwill and because I view this as a definitive measure to put affordable housing and community development firmly into the private sector-- and away from dependency on governmental handouts-- I am very pleased to support the proposal by NationsBanks Corporation, Charlotte, North Carolina, to acquire BankAmerica Corporation, San Francisco, California.



P.O. BOX 12506 SAN FRANCISCO, CA 94112. (415) 334-0220

Panel 23

JULY 10, 1998

MR. WILLIAM W. WILES
SECRETARY OF THE BOARD
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
20TH STREET AND CONSTITUTION AVE, N.W.
WASHINGTON, D.C. 20551

FAX: 202-452-3819

RE: OBJECTION TO THE MERGER AND RESOLUTION TO THE PROPOSED MERGER BY NATIONBANK CORPORATION, CHARLOTTE, NORTH, CAROLINA, TO ACQUIRE BANK OF AMERICA CORPORATION OF SAN FRANCISCO, CALIFORNIA, U.S.A.

RE: CONSIDERATION OF A PROPOSAL SUBMITTED BY THE PASTORS AND MINISTERS CONFERENCE OF SAN FRANCISCO AND ADJACENT CITIES, INC., UNDER THE FEDERAL COMMUNITY REINVESTMENT ACT./HOW THE TWO BANKS CAN ASSIST IN COMMUNITY PROJECTS BY DONATING \$4,000,000 TO THE CONCERNED ORGANIZATIONS FOR COMMUNITY SERVICES.

THE PASTORS AND MINISTERS CONFERENCE OF SAN OF SAN FRANCISCO AND ADJACENT CITIES, INC.,/SOUTH BAY BRANCH OF THE NAACP/NORTHERN CALIFORNIA AFFILIATES OF THE CONGRESS OF NATIONAL BLACK CHURCHES WHICH CONSIST OF MORE THAN 500 HUNDRED CHURCHES AND ACTIVE COMMUNITY BASED ORGANIZATION WHICH HAVE FORMED A COALITION AGAINST THE MERGER HEREBY FILES THEIR CONCERNS NEIGHBORHOODS, ABOUT THE MERGER'S IMPACT ON BANKING SERVICES TO THE LOW-INCOME AND MINORITY NEIGHBORHOODS.

FEDERAL LAW-THE COMMUNITY REINVESTMENT ACT OF 1977 REQUIRES BANKS TO MAKE LOANS IN ALL NEIGHBORHOODS IN WHICH THEY HAVE BRANCHES AND WE ARE CONCERNED ABOUT HOW BANK OF AMERICA IS CLOSING MOST OF THEIR BANK BRANCHES IN PREDOMINANT AFRICAN AMERICANS NEIGHBORHOODS IN THE BAY AREA. WE ARE CONCERNED ABOUT THE POOR COMMUNITY LENDING RECORD TO MINORITY ESPECIALLY AFRICAN AMERICANS IN LOW-INCOME AREAS FEDERAL REGULATORS SHOULD LOOK AT THEIR RECORD VERY CLOSELY.

WE FEEL THAT THESE GIANT INSTITUTIONS SHOULD EXPAND THEIR LOANS COMMITMENTS NATIONWIDE IN COMMUNITY DEVELOPMENT LOANS AND OTHER INVESTMENTS SUCH AS ASSISTING WORTHWHILE COMMUNITY



-2-

SERVICES PROJECTS.

WE FEEL THAT THE BANK SHOULD EXPAND THEIR SMALL BUSINESS LOANS, AFFORDABLE HOUSING LOANS, LOANS TO MINORITIES CONTRACTORS ESPECIALLY AFRICAN AMERICAN CONTRACTORS ECONOMIC DEVELOPMENT LOAN AND CONSUMERS LOANS.

IT IS OUR CONCERNS IF THESE TWO BANKING INSTUTIONS ARE ALLOWED TO MERGE WITHOUT THESE DETAILED GUIDELINES IN PLACE AS PART OF THIS MERGER IT IS OUR VIEW THAT THESE INSTITUTION MAY NEGLECT OR ABANDON IT COMMUNITY INVESTMENTS IN CALIFORNIA.

WE FEEL THAT INVESTMENTS WILL DIMINISH AS BANK OF AMERICA LEAVES CALIFORNIA AND THE LOSERS WILL BE THE (LOW INCOME AND MINORITY BANK CUSTOMERS.

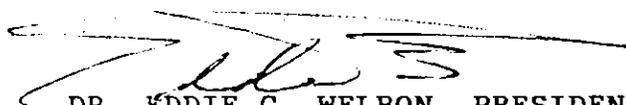
MORE IMPORTANTLY WE A VERY CONCERNED ABOUT THESE TO BANKING INSTITUTIONS LENDING POLICIES TO AFRICAN AMERICANS HIRING POLICIES OF AFRICAN AMERICANS ESPECIALLY AFRICAN AMERICAN MALES AND OTHER MINORITY.

THANK YOU VERY MUCH FOR ALLOWING US TO PRESENT OUR CONCERNS AND VIEWS.

SINCERELY,


CLARENCE R. STERN, ADMINISTRATIVE ASSISTANT

REV. JESSE JAMES, VICE PRESIDENT


DR. EDDIE C. WELBON, PRESIDENT

CC: CONGRESS OF NATIONAL BLACK CHURCHES, WASH, D.C.
NATIONAL OFFICE OF THE NAACP
THE CONGRESSIONAL BLACK CAUCAS, WASH, D.C.



P.O. BOX 12506 SAN FRANCISCO . CA 94112. (415) 334-0220

JUNE 27, 1998

JOY HOFFMAN-MOLLOY
COMMUNITY AFFAIRS OFFICER,
FEDERAL RESERVE BANK OF
SAN FRANCISCO, DIVISION
OF BANKING SUPERVISION AND
REGULATION, MAIL STOP 620
101 MARKET STREET
SAN FRANCISCO, CA. 94105

FAX: 415-393-1920)

- RE: OBJECTION TO THE MERGER AND RESOLUTION TO THE
PROPOSAL BY NATIONBANK CORPORATION, CHARLOTTE,
NORTH CAROLINA, TO ACQUIRE BANK OF AMERICA
CORPORATION, S AN FRANCISCO, CALIFORNIA
- RE: CONSIDERATION OF A PROPOSAL SUBMITTED BY THE
PASTORS AND MINISTERS CONFERENCE OF SAN FRANCISCO
AND ADJACENT CITIES, INC. UNDER THE COMMUNITY
REINVESTMENT ACT.

BRIEF STATEMENT

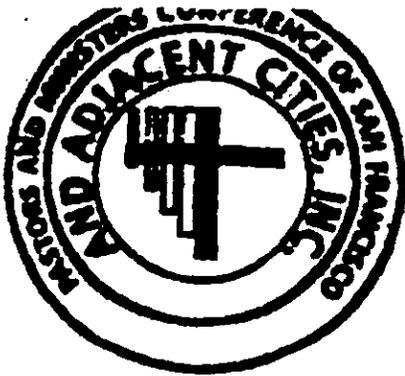
WE ARE CONCERNED IN BANK OF AMERICA'S LENDING POLICIES
TO AFRICAN AMERICANS AND OTHER MINORITIES GROUPS, PARTI-
CIPATING IN COMMUNITY OUT-REACH PROGRAM IN THE AFRICAN
AMERICANS COMMUNITIES AND SEE IF THESE BANKING INSTITUTIONS
WOULD BE SUPPORTED IN ASSISTING OUR NONPROFITS IN COMMUNITY
PROJECTS TO BENEFIT OUR INNER-CITIES YOUTHS.

ESTIMATED TIME TO SUBMIT OUR CONCERNS AND PROPOSAL SHALL
BE APPROXIMATELY THIRTY MINUTES (30) MINUTES.

WE ALSO HAVE A JOINT RELATIONSHIP WITH THE NORTHERN
CALIFORNIA BRANCHES OF THE NAACP AND THE NORTHERN CALIFORNIA
AFFILIATE OF THE CONGRESS OF NATIONAL BLACK CHURCHES.

AND MINISTERS AND PASTORS THROUGH OUT THE NORTHERN
CALIFORNIA
AREA.

1. DR. EDDIE C. WELBON, PRESIDENT OF THE SOUTH BAY BRANCH



P.O. BOX 12506 SAN FRANCISCO . CA 94112. (415) 234-8228

PRESIDENT OF THE NORTHERN CALIFORNIA AFFILIATE OF THE CONGRESS OF NATIONAL BLACK CHURCHES.

ADDRESS: 918 AVALON AVENUE, SAN FRANCISCO, CA. 94112

TEL: 1-415-334-0220

DR. BENJAMIN CRISWELL, 1058 CAPITOL AVENUE, SAN FRANCISCO, CALIFORNIA TEL: 1-415-584-4710 HEALTH DIRECTOR OF THE NORTHERN CALIFORNIA CONGRESS OF NATIONAL BLACK CHURCHES, NORTHERN CALIFORNIA AFFILIATE. VICE PRESSIDENT OF THE SOUTH BAY BRANCH OF THE NAACP.

3. CLARENCE R. STERN CHAIRMAN OF THE FUNDRAISING COMMITTEE SOUTH BAY BRANCH OF THE NAACP. SAME AS ABOVE.

4. REV. JESSE JAMES, MEMBER OF THE BAORD OF DIRECTORS OF THE PASTORS AND MINISTERS CONFERENCE OF S.F. AND ADJACENT CITIES, AND THE CONGRESS OF NATIONAL BLACK CHURCHES, NORTEHR CALIFORNIA AFFILIATE.

2535 24TH STREET, SAN FRANCISCO, CALIFORNIA 94110 415-586-7149.

JAMES WRIGHT, CHAIRMAN OF THE LABOR AND INDUSTRY COMMITTEE SOUTH BAY BRANCH OF THE NAACP. 918 AVALON AVENUE, SAN FRANCISCO, C ALIFORNIA 94112. 1-510-427-0516.

HUMBLY SUBMITTED:

DR. EDDIE C. WELBON, PRESIDENT
C.E.O.



TESTIMONY

John R. Burgis

1700 Montgomery Street
Suite 300
San Francisco, CA 94111-1024
(415) 438-5500 Telephone
(415) 438-5724 Facsimile

Catholic Healthcare West

RE: NATIONSBANK/BANKAMERICA MERGER

Federal Reserve Bank of San Francisco

July ¹⁰~~8~~, 1998

My name is John Burgis and I serve as Senior Vice President Financial Services/Chief Financial Officer for Catholic Healthcare West. Today I represent the concerns and hopes of Catholic Healthcare West and a number of institutional investors including the General Board of Pensions of the United Methodist Church, The Presbyterian Church USA, Christian Brothers Investment Services, the Congregation of the Sisters of Charity of the Incarnate Word and Sisters of Charity Health System. These institutions alone hold over 650,000 shares of NationsBank stock and over 400,000 shares of BankAmerica stock. Catholic Healthcare West uses Bank of America for its cash transactions and credit needs; both the Sisters of Charity and the Sisters of Charity Health Care System use NationsBank for their cash transactions.

Let me begin with some background on Catholic Healthcare West's relationship with BankAmerica. Catholic Healthcare West is a \$3.5 billion health services delivery system with facilities and affiliated physician groups in California, Arizona and Nevada. As a religiously sponsored organization, CHW seeks business partners that demonstrate corporate social responsibility. In 1991 CHW began a significant lending and depository relationship with BankAmerica, due in large part to the bank's commitment to expanded community reinvestment. During the ensuing years, we have noted and admired BankAmerica's efforts to differentiate itself as a leader in corporate social responsibility. Particular accomplishments include:

- Focused attention to developing, and promoting access to, affordable financial services and products driven by a formal goal to achieve outstanding ratings in every CRA examination
- Substantial financial commitment to BankAmerica Community Development Bank
- Dedicated and expert leadership devoted to community reinvestment and development
- Inclusion of environmental and social considerations in criteria for lending to developing economies
- Development of a strong environmental program including endorsement of the CERES Principles for corporate environmental responsibility and accountability
- Sustained commitment to diversity in the workplace demonstrated by effective equal employment opportunity and promotion programs, minority purchasing programs and expanded family benefits programs

Relative to the proposed merger of BankAmerica and NationsBank, we urge the new corporation to embrace a comparable, if not enhanced, stance toward corporate social responsibility. In our view the merger presents a singular opportunity to develop an exemplary enterprise that succeeds in the marketplace by becoming the national leader in meeting community needs.

In particular, we are concerned that the new corporation commit formally and publicly to meeting the credit needs of every community where it does business with special attention to low-moderate income clients and persons of color. To that end we have asked Dr. Lind of CANICCOR to prepare reports assessing both NationsBank and BankAmerica's performance in addressing the credit needs of these historically underserved populations. Based on Dr. Lind's assessment, we ask the new corporation to commit to both mortgage lending and small business goals.

In mortgage lending, especially on purchase mortgages and home improvement loans, we ask that the new holding corporation seek to achieve:

1. Performance levels above the industry level in the assessment areas of the banking subsidiaries in lending to Black, Hispanic and low-income borrowers *and* in lending in low-moderate income tracts *and*
2. Performance levels at parity with the industry in all other geographic areas in which the mortgage lending subsidiaries operate in lending to Black and Hispanic borrowers

With regard to business lending, we request that the corporation achieve above the industry levels in small business loans, especially:

1. Loans of \$100,000 and under in low-moderate income tracts, *and*
2. Loans to small businesses in low-moderate income tracts

We believe that these goals would not impair the financial viability of the corporation, but would increase the corporation's market. Such goals would provide a firm basis for further development of these communities *and* help insure the corporation against violations of the Equal Credit Opportunity Act.

In recent negotiations with a number of corporations, we have been gratified by their readiness to adopt similar goals and are confident that the merged corporation will demonstrate a comparable willingness to implement such goals.

We were pleased with the announcement of a Community Lending Commitment of \$350 billion over the next 10 years for the merged corporation. It is indeed the largest commitment announced in any merger so far. We welcome the new corporation's willingness to detailed annual reporting of performance at national, regional and local levels. We view such reporting as a means to maintain public accountability and as a platform for dialogue.

However, we believe that the goals, which I outlined above, serve a different function from these commitments. Commitments are what can be counted on, while goals detail the benchmarks towards which the corporation aims. Thus goals are usually higher than

commitments and are more specific. We are particularly concerned that goals be developed to apply to local markets and market sectors. As Dr. Lind points out in his analysis of our desired goals and their comparison to the announced commitment:

"The need for separate goals for each racial/ethnic group is clearly shown by the fact that the 10-year industry projection for white borrowers is nearly \$50 billion while that for Black borrowers is under \$15 billion. Thus the aggregate commitment for Blacks and Whites could be achieved through an excess of lending to White borrowers of \$5 billion (a 10% increase) and under-lending to Black borrowers by \$5 billion for a loss of over 33% to the Black community."

In closing, let me reiterate my advocacy that the new corporation embrace a vigorous stance toward corporate social responsibility and seize the opportunity to develop an exemplary enterprise that succeeds in the marketplace by becoming the national leader in meeting community needs.

CANICCOR RESEARCH

Panel 23

P.O. Box 426829, San Francisco, California 94142-6829 · (415) 885-5102 · FAX (415) 885-5103
Offices at 220 Golden Gate Avenue, 9th floor, San Francisco, CA 94102

TESTIMONY

of

John E. Lind, Executive Director, CANICCOR

before the

HEARING on the Acquisition of BANKAMERICA by NATIONSBANK

on 9 - 10 July 1998 at the

FEDERAL RESERVE BANK OF SAN FRANCISCO

I am John Lind, Executive Director of CANICCOR, an agency of a non-profit corporation. CANICCOR serves as a consultant to institutional investors on the social responsibility of financial institutions. It provides services in two fashions.

1. CANICCOR provides information to funds which have social screens. These include Kinder, Lynderberg & Domini Inc., Calvert, and U.S. Trust.
2. CANICCOR provides analysis for and coordination between institutional investors which take an active shareholder role with the corporations in which they invest.

It is out of this second role, that I speak with you today.

As you have heard from Catholic Healthcare West, church related shareholders have sought agreements with a number of major lenders to have goals of lending at or above the industry level to each under-served group and area in which the corporation operates. The industry level is defined as all reporters under the Home Mortgage Disclosure Act.

Let me give a few numbers to illustrate the problem.

- In 1996 NationsBank originated 1492 loans to Black borrowers (the most difficult to serve group) in its home territory of North Carolina, South Carolina and Virginia, 657 below the industry level of all HMDA reporters. If NationsBank were to have achieved industry parity, lending to Black borrowers in these states would have increased 45%.
- In 1996 Bank of America issued 396 loans to Black borrowers in California, 186 loans below the industry average. To have achieved industry parity its lending to this sector, lending to Black borrowers should have increased by 47%.
- Overall, in 1996 the two corporations performed at 24 to 27% below the industry in lending to Black borrowers, 12 to 15% below in lending to Hispanic borrowers, 14% below in lending to low-moderate income borrowers and 7 to 22% below in lending in low-moderate tracts. (When Boatmen's and Barnett banks are added the overall performances improve slightly to -19%, -14%, -11% and -10%, respectively.)

I refer you to my filing for details on home improvement lending and small business lending.

Let me summarize by saying that we have had a recent phone conversation with NationsBank and believe that the goals we propose are not foreign to the corporation. However, even if these goals were adopted, the merged corporation faces considerable challenge in developing the necessary structures to attain these goals in the near future:

1. NationsBank and BankAmerica have very different corporate cultures, which need to cooperate and coordinate,

Panel 24

**Federal Reserve Board Public Hearing on Nations Bank/ Bank of America
Merger
Federal Reserve Bank of New York
July 10, 1998**

**San Francisco Unified School District's School-to-Career Programs Support
of Nations Bank/Bank of America Merger
Written Submission of Testimony of Joseph Baker**

Description of School-to-Careers and the Academy of Business and Finance

The San Francisco School-to-Career Partnership (STC) is an effort by the San Francisco Unified School District, San Francisco Chamber of Commerce and City College of San Francisco to combine the knowledge and experience of education, business, and government leaders to better prepare public school students for their futures: as college students, members of the American workforce, and beyond. Key aspects of the STC partnership include:

Raising Educational Standards: Identifying the skills needed for success in further education and in the workplace; ensuring high aspirations among all students.

Integrating School and Work: Linking students' classroom learning with experiences in the workplace and in the community; ensuring students are exposed to a full range of career opportunities.

- Career Experiences: Working with the private and public sectors to provide the following structured learning opportunities in the workplace for students and teachers:
- Student internships: paid, time-limited structured work experiences
- Job Shadowing: opportunity for students to observe an employee in the workplace
- Teacher Externships: short or extended teacher visits to the workplace
- Site Tours: group visits to various workplaces

Evaluating Progress and Success: Setting goals and creating measurement tools to track and assess the STC Partnership system.

System Building: Connecting and expanding upon existing school, community, government, and corporate programs which serve to educate and prepare San Francisco youth for career success.

The Academy of Business and Finance is a San Francisco School District career pathway which is a component of the San Francisco STC Partnership. The Academy of Business and Finance currently offers over 1200 students at 7 public high schools the opportunity to explore careers in business and the financial services industry while developing the skills necessary for success in any career. Students take rigorous academic courses, participate in tours of businesses, work on improving academic skills with a business mentor, work as an intern and take a college course in the senior year.

Key to the success of the Academy of Business and Finance Program is a quality community partnership. An active advisory board consisting of business executives, college partners, community representatives and high school teachers and students support and guide the program. Training for teachers, mentors, internships, financial support and assessment of progress are provided by this partnership. The Academy of Business and Finance is a member program of the National Academy Foundation, based in New York, which has developed a national network of over 500 model school-to-career programs.

The Academy of Business and Finance is today at the forefront of the school-to-work movement. It is a focus of and model for education reform efforts in this community. In San Francisco, of the 18,962 high school students, 42% are identified as educationally disadvantaged, 27% receive free or reduced cost lunch, 24% are limited or non English speaking and over 80% are identified as members of minority populations. While the students participating in the Academy of Business and Finance program reflect the same diversity, over 94% continue on to a two or four year college.

Bank of America Support of School-to-Careers and the Academy of Business and Finance

Bank of America and Bank America Foundation have served as key factors in the support of school-to-career programs nationally and in San Francisco.

On a national level, Bank of America's participation on the National Employer Leadership Council and in the development of National Skills Standards in Banking has set a standard of corporate leadership in developing tools to assist educators. Bank of America has supported the development of model school-to-career programs in many communities to promote educational reform and economic development.

In San Francisco, Bank of America has a long history of supporting public education. Bank of America currently sponsors paid internships, scholarships, grants to support program development and other services that directly impact the education and improve the lives of the young people involved in San Francisco STC Programs and the Academy of Business and Finance. Bank of America provides business Advisory Board leadership for the Academy of Business and Finance. Employees from throughout the bank have served as mentors and donated vast amounts of time to help students with such things as resume writing and interviewing skills. Other employees have volunteered as speakers, provided tours or worked with teachers to improve curriculum.

Conclusion

Bank of America's support for the San Francisco School-to-Career Program and the Academy of Business and Finance has a great and positive impact on thousands of high school students. The School-to-Career office of the San Francisco Unified School District sincerely believes that the merger between Nations Bank and Bank of America will greatly increase the STC partnerships ability to provide quality educational opportunities to San Francisco's young people and will create a more diverse workforce for the financial services industry of the 21st century. It is for these reasons that the School-to-Career office of the San Francisco Unified School District wholeheartedly supports the merger between Nations Bank and Bank of America. We thank the Federal Reserve Board for the opportunity to express that support.

Community Services Agency and Development Corporation

**Bank of America / Nations Bank Merger
Testimony before the Federal Reserve Bank**

July 10, 1998

Thank you for this opportunity to testify. I am Michele McKee, Planner with Community Services Agency Development Corporation (CSADC). CSADC is a private nonprofit human services corporation which has been operating in the State of Nevada for 33 years.

During the past seven years, CSADC has focused a major portion of its energy in developing affordable housing opportunities for the low income and working poor populations in Nevada. Our housing efforts actually originated with a \$10,000 predevelopment grant received from Bank of America in 1991. Since that time, CSADC has constructed eleven projects consisting of 801 units of affordable housing and is currently developing an additional 200 units within State.

While our primary focus is on increasing the availability of affordable housing, our secondary focus has been to maintain and/or improve the quality of life in communities and neighborhoods in Nevada. Our high quality construction projects are located in desirable areas of town and blend with existing architecture and amenities making them indistinguishable from market rate apartment complexes in the same neighborhoods. The Builders Association of Northern Nevada recognized our most recent development with

their High Standards Award for 1997.

While CSADC has developed formal relationships with a number of Nevada financial institutions, the relationship formed with Bank of America has been by far the most successful. The Bank of America Community Development Bank provided construction financing on nine of our eleven projects for a total of \$ 26.8 million and provided permanent financing on one project for a total of \$ 1.2 million. CSADC utilizes the Bank of America Community Development Bank financing primarily because of its favorable loan terms and the responsiveness of its knowledgeable and committed staff.

Another CSADC project supported by Bank of America has been our First Time Homebuyer Program. In the last four years, CSADC has provided down payment and closing cost assistance to 203 low income families purchasing their first home through this program.

Bank of America Mortgage has been the most active lending participant in the program, generating 60 of the 203 loans or 30% of all loans combined. Again, this is due largely to the high level of support and knowledge of our program demonstrated by Bank of America staff, as well as the favorable lending criteria which Bank of America has developed for its affordable loan programs.

Bank of America staff were actively involved in the development of our pre-purchase counseling program and donated approximately eight hours per month of staff time to

assist CSADC in the actual provision of the counseling. The Bank of America Foundation has also provided administrative support in the amount of \$5,000 on an annual basis for this program.

One of the most recent important initiatives on which CSADC and Bank of America are working is the Bank of America Rural 2000 Initiative. Three of CSADC's affordable housing projects mentioned before, were developed in rural Nevada utilizing Bank of America Community Development financing. As you may be aware, due to the small populations and cyclical mining economic base of rural Nevada, financing is hard to come by for any type of housing development. In fact even now, approximately 40% of all housing in rural Nevada consists of mobile homes.

The Bank of America Rural 2000 Initiative is designed to expand on the current financing products available in rural areas to include community facilities such as childcare centers, capacity building support for nonprofit organizations, development of a community development loan fund servicing rural areas, and support of uses of technology designed to meet rural needs. In order to develop these initiatives, Bank of America Rural 2000 included on its Advisory Board community leaders from all service areas, including CSADC's Executive Director, Mr. Cloyd Phillips. Bank of America's dedication to the rural areas of Nevada is to be commended.

CSADC supports the Bank of America and Nations Bank merger. Our main concern in fact, the reason for being here to today is to assure that the positive programs, products

and services which Bank of America has in place in Nevada are not lost in the process.

As a relatively small state in terms of population we in Nevada have often found ourselves excluded from initiatives presented by both private and public funding sources on a national basis. We would encourage that the Bank of America Community Development Bank, Bank of America Foundation and staffing support of local initiatives, and the Bank of America Rural 2000 Initiative be maintained or expanded through this merger. Thank you.



**Testimony to the
Federal Reserve Bank of San Francisco
on the Proposed Merger Between NationsBank and Bank of America
July 9, 1998
by
Jason J. Friedman, Vice-President
Institute for Social and Economic Development
Iowa City, Iowa**

My name is Jason Friedman and I am the Vice-President and Director of Economic Development for the Institute for Social and Economic Development in Iowa City, Iowa. ISED is a statewide non-profit agency that helps low-income, unemployed and underemployed individuals to start small businesses to become economically self-sufficient. ISED also works in economically distressed urban and rural areas partnering with communities seeking to revitalize their local economies and create new businesses and jobs.

The proposed merger between NationsBank and Bank of America has profound significance for my organization and I am here today to explain why.

ISED is a microenterprise development agency. We provide training in self-employment for Iowans that see small business development as a way to become self-sufficient, provide for their families and enter the mainstream economy. Over 65% of the nearly 1,000 Iowans we serve each year are on public assistance or have incomes under 150% of the federal poverty level.

A critical element of ISED's success stems from its relationships with the financial community. As we are not a direct lender, ISED relies on financial institutions as one important source of capital to help our clients start small businesses. However, many of our clients fall outside traditional credit guidelines. Over the past ten years, we have been successful in encouraging some banks to look at low to moderate income people as a profitable market for new customers and new business opportunities.

However, Iowa, unlike California, North Carolina, New York, Maine and many other states, does not have a history of community development corporations, community development financial institutions and other public-private models for revitalizing distressed neighborhoods and creating jobs and businesses in low-income communities. This is not to say that financial institutions are not committed to community development. Rather, we have not yet fully explored the newer approaches to bank-driven public-private investments in low-income communities.

In 1997, NationsBank bought Boatmen's Bank, based in St. Louis and which had a presence in Iowa. In many ways, that will be remembered as the beginning of a new era of banking in Iowa. For the first time, a bank came to us and said, "we know what you do and we embrace it. What can we do together to increase business activity, jobs, and savings and investment in the communities we work in together?"

Needless to say, it was a breath of fresh air for us. We didn't need to convince NationsBank that serving the LMI market made good business sense – they are already doing it.

Last summer, NationsBank Iowa made a major investment in ISED to help subsidize the cost of our business training programs in both urban and rural areas. Today, Al Gross, the bank's Vice-President for community investment serves on our advisory council in Des Moines, our capital city. Al and I are now exploring ways to strengthen and grow our business relationship in ways that achieve our mutual goals.

Honestly, the attention we are getting from NationsBank is great and the investment is very much appreciated. But the bottom line is that Iowa now has a major financial institution that views the health and growth of inner-city markets as a major focus and opportunity. And we are proud to be a partner with NationsBank in fulfilling those objectives.

The proposed merger between NationsBank and the Bank of America will only serve to strengthen and expand that commitment. The new bank will provide a remarkable depth and breadth of products and services to rebuilding neighborhoods and increasing economic opportunity. We look forward to welcoming the new bank and the new opportunities it will provide to widen the circle of economic opportunity for all Iowans. Thank you.



Northbay Ecumenical Homes

— A NON-PROFIT HOUSING DEVELOPMENT CORPORATION —

Offices: 14 Commercial Blvd., Suite #133 (on Pamaron Way), Novato, CA 94949

Mail: P.O. Box 428, Novato, CA 94948-0428

Phone: (415) 382-2530 Fax: (415) 382-2538 E-mail: casa@neh.org www.neh.org

Phone 2

cab ←

Clark A. Blasdell
President & CEO

Karen Nathanson
NEH Real Estate Broker



DATE: Friday, July 10, 1998

1998 DIRECTORS & OFFICERS

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Board Chairman

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Barbara Dalmau
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Kathi Barrilleaux
Investment Loan Chair

Clyde L. Miller
Projects Chair

TO: Board of Governors, Federal Reserve Bank of San Francisco (FRBSF)
FROM: Northbay Ecumenical Homes, Inc. (NEH) and
Suburban Alternatives Land Trust (SALT), Inc.
by Clark A. Blasdell, President and CEO of NEH and SALT

RE: NationsBank and Bank of America MERGER as "NewBank"

INTRODUCTION: NEH and SALT are two affiliated Marin County-based nonprofit community development and affordable home finance corporations. I was a Founder of NEH in 1978 and in 1993 of SALT, which incorporated in 1998. As a developer/builder of new homes for almost two decades, I have known the difficulties of seeking and securing the cash and credit needed to build and finance subdivisions and individual home sales and purchases. We've produced over 2,500 homes; more than one in four affordable.

I particularly have had extensive experience assisting low income first time homebuyers buy their first home in Marin - one of our Nation's most unaffordable and difficult housing markets - and more recently with CASA HOME Loan™ contracts in ten Bay Area cities.

SUPPORT FOR MERGER: On behalf of NEH and SALT, and the many low income clients and working families we have served over the past two decades, I support the Merger as I understand it from publicly available materials that have been provided to me and us.

As this is the first merger discussion in which I've participated, I am unclear about the roles and process after today's hearing is closed. However, I offer the following additional comments for your considered action:

ISSUES and CONCERNS to ADDRESS/RESOLVE:

1. Whether or not FRBSF retains review and control over subsequent CRA evaluations of "NewBank" performance, I think clear and adequate written direction is important now, in case any other FRB gets jurisdiction. This can ensure California's diverse credit and banking needs are properly and adequately understood, as well as provided for by those farther away. Measurable and profitable RESULTS must be standard achieved by NewBank, from the perspective of new Stockholders, any new Regulators, and ultimately by the number of new Customers they secure beyond all existing Customers retained.

2. "NewBank" should make adequate written commitments establishing the numerical targets, goals and/or minimum CRA activities for California (e.g. make separate "California Commitments", especially for program areas such as Charitable giving, Foundation operations, and State/Community Bank staff H.Q.).

FRB798

MEMBERS

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- First Federal Savings & Loan Assn.
- First National Bank of Marin
- Frank Howard Allen Realtors
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- North Bay Council
- Novato Chamber of Commerce
- Novato Community Hospital
- Novato Human Needs Center
- Novato United Methodist Church
- Old Republic Title Company
- Our Lady of Loretto Catholic Church
- Pacheco Ranch Winery
- Presbyterian Church of Novato
- St. Francis of Assisi Episcopal Church
- San Rafael Thrift & Loan
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- The Martin Group
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- Vintage Oaks at Novato
- Ferry Ward, Spectra Mortgage Group
- Wells Fargo Bank
- WestAmerica Bank
- David Wright, Grant Writer

With the support of





The CASA Home Loan™ Program

by V. Terrell (Terry) Ward, CMB
Consultant & Capital Funds Development Officer

In the process of looking for new ways to respond to CRA and community investment requirements, many financial institutions are recognizing residential lending opportunities for first-time homebuyers which offer real potential for both growth and profitability.

The CASA Home Loan™ "silent second" Program offers a simple and effective vehicle for providing affordable home purchase opportunities. Through the Community Assisted Shared Appreciation, or CASA, Home Loan™ Program, each participating lender may benefit in one or more of the following ways:

- Investment potential through CASA Home Loan™ fundings
- Increased first mortgage lending and related income opportunities
- Expanded business opportunities with builders and realtors
- Enhanced CRA performance under the lending, investment and service tests
- Community outreach and visibility
- Increased investment potential through public/private partnerships

Advantages of CASA Home Loan™ Program Participation

Northbay Ecumenical Homes (NEH) has developed the CASA Home Loan™ Program in response to the substantial need for home ownership assistance in the California market where housing costs are among the highest in the country. Through a unique blending of public and private funds, the CASA Home Loan™ Program has the potential to: 1) substantially increase the number of families achieving home ownership for the first time, 2) help financial institutions meet CRA objectives and 3) through public/private "leveraged investments," increase the potential return to participating financial institutions.

Structure of the CASA Home Loan™ Program

The CASA Home Loan™ is a specialized home finance program in which the borrower agrees to share appreciation in the property being purchased with NEH and on behalf of its public and private CASA partners. Typically, three loans are put in place along with a minimum downpayment of five percent from the borrower. The first loan will generally be a fixed rate FannieMae saleable loan made by a primary lending institution. A second loan is then placed on the property either from the same first lender or another lender who wishes to participate in this program. To complete the purchase, a third loan is placed on the property through the use of a city silent loan program or other grant source. When these loans are ultimately paid off through the sale of the property, the borrower receives the original amount of their downpayment plus a minimum of 40% of the appreciation. When the CASA loan is paid off NEH also receives, on behalf of its CASA partners, its original principal and a maximum 60% share of the property's appreciation instead of the monthly principal and interest payments it would have normally received if the loan had been a traditional second loan.

A simplified example of how this program works is as follows:

Original Purchase Transaction

Original Purchase Price	\$100,000*
Downpayment from Borrower @ 5%	\$5,000
First Mortgage	\$75,000
CASA Loan - Second Mortgage	\$10,000
Silent City Loan or Grant - Third Mortgage	\$10,000

Five Year Sale Scenario

Subsequent Sale Price	\$112,500*
Payoff of First Mortgage	(\$70,963)
Payoff of CASA Loan Second Mortgage	(\$10,000)
Payoff of Silent City Loan or Grant - Third Mortgage	(\$10,000)

(continued)



NEIGHBORHOOD HOUSING SERVICES OF CHICAGO INC.
747 N. MAY STREET, CHICAGO, IL 60622 (312) 738-2227 • FAX (312) 738-2491

Bruce Gottschall - Ex. Dir.

B of A - Nations Bank merger testimony July 9, 1998 at the Federal Reserve

NHS Chicago background

- * 23 years of community development; 18 Chicago neighborhoods
- * partnership with more than 200 financial institutions in Chicago with neighborhood residents and city government amid at restoring confidence in declining neighborhoods
- * community development - neighborhood strategies - neighborhood reinvestment
- * made 10,000 housing rehabilitation and community development loans
- * 20,000 units directly impacted
- * involved nationally with NHS's across the country in the NeighborWorks Campaign for Home Ownership and the National Neighborhood Housing Network

Bank of America and the predecessor organizations in Chicago - B of A IL and Continental Bank - have been leaders in assisting NHS of Chicago to serve the credit and community development needs of an increasing number of people and neighborhoods over the last 23 years. Twenty-three years ago the first president of NHS Chicago was an executive vice president at Continental. Fifteen years ago Continental Bank was the first single institution to fund the majority of a new NHS neighborhood - Little Village. Ten years ago Continental made a \$20 million commitment to NHS to develop the Chicago Home Improvement Program (CHIP) which assisted in NHS becoming the only not for profit mortgage bank licensed in the State of Illinois and substantially increasing NHS's capacity as a community development lender.

Five years ago, B of A IL expanded the CHIP commitment to \$40 million and invested in the development of a new neighborhood NHS operation in West Humboldt through a 5 year grant. Funds were also committed to improve NHS lending capacity, market the lending programs, assist in funding the RLF and support the NHS operation in other neighborhoods of Chicago. The B of A community development staff has provided personal leadership for the expansion of NHS activity in Chicago's neighborhoods. Among other things, their consultation in financial planning prepared NHS to submit and be approved for matching funds as a Community Development Financial Institution.

NHS has been able to provide lending and investment opportunities for financial institutions through NHS loan pools and investment opportunities such as the Chicago Family Housing Fund (CFHF). In addition to lending and investment opportunities, NHS provides lending institutions with "bankable" customers that otherwise could not have been served by their institution. NHS is able to do this because we provide a level of service that prepares an individual for home ownership and improvement. NHS provides customers with homebuyer education, rehabilitation assistance, and affordable financing and downpayment assistance, all of which makes the customer a better credit risk for the bank. Without NHS added services these loans would not be made. In the private market, these services are not available or are not combined in such a way

that make homeownership a viable option for many low and moderate income individuals and families. NHS is able to provide an a range of services through its Full Cycle Lending program, which offers families guidance and services throughout the entire homebuying process from credit counseling to landlord training and post-purchase services. It is because of this high level of service and assistance to families that NHS is able to create lending opportunities for the banks.

NHS has the history, capacity, and infrastructure/delivery system to make loans to clients and to neighborhoods that are not routinely served by the bank's own infrastructure and program. It creates viable neighborhood markets through education and development.

In Chicago, the Bank of America's leadership involvement, investment, lending and grant relationship has produced benefits for neighborhoods and families. In past mergers and organizational changes, the new entities have always increased their resources to NHS of Chicago and the community. As NHS of Chicago continues to fulfill its community development and lending commitments to the neighborhoods, we expect as in the past that B of A / NationsBank will increase resources based on their size and institutional capacity.

We are supportive of this merger because of our very positive history and working relationship with Bank of America. In addition, our discussions with Bank of America and NationsBank representatives make us very optimistic about their commitment to communities and partnerships. The \$350 billion commitment demonstrates this and the interest in developing local partnerships gives specific avenues that these resources can be delivered in local communities. Because of this we believe it will result in increased resources for community development.

Finding solutions at the local level within national organizations is a major challenge. How can large national institutions respond to local community development needs? As decision-makers get further removed how can they understand the local communities? How can local partnerships be built that have the resources and decision-making necessary?

Community development by its very nature is local. In order to truly transform once undeserved neighborhoods, like the neighborhoods in which NHS operates, you need specialized program and products that address the very specific problems that cause their decline.

The NeighborWorks Network is actively engaged with B of A/Nations Bank in developing innovative partnerships to bridge this gap and create mechanisms responsive to local communities.

We are working to strengthen and enhance a national commitment and build on and strengthen local partnerships and capacity. This is the way to insure that the \$350 billion commitment that was made will result in loans and dollars committed to community development at the local level. We are confident that this working relationship and the commitment to community development and innovative local and national partnerships that this merger will result in effective and additional resources.

By working creatively together to develop innovative loan pools and investment opportunities, working to meet community credit needs and to deliver national as well as specific local loans and investments that B of A and Nations to show their support for community development that creates effective results.

NHS appreciates the opportunity to testify at these hearings because it focuses the attention on the need to sustain and enhance the local community development efforts and resources.

Thank you

Panel 25



July 10, 1998

Mid-Peninsula Housing Coalition

658 Bair Island Road, Suite 300
Redwood City, California 94063
Tel: [650] 299-8000
Fax: [650] 299-8010

Board of Governors
Federal Reserve System

RE: Nations/Bank of America merger

Gentlemen:

My name is Fran Wagstaff and I am pleased to be here this afternoon representing the Non-Profit Housing Association of Northern California (NPH).

NPH is a membership organization of some 500 members, including regional and community based housing non profits, service providers, consultants, lenders, public agencies and other parties involved in the production and management of affordable housing in northern California. I am a non-profit developer and member and past president of NPH.

I am here today to emphasize NPH's concern regarding the proposed merger and its effect on our constituents.

First, I want to describe the active and strong network of non-profit housing organizations which exists here.

NPH last conducted a poll on non-profit housing production in 1995-96. In the nine Bay Area counties, we found that non-profits had produced over 15,000 units of housing in the prior six years, at a development cost exceeding \$ 1 billion. In one year alone, 1994, non-profit housing production accounted for 61% of all multifamily housing built in the region. 86% of this housing serves low-income households, and over 50% is targeted to very low-income households. Unlike for-profit housing, this housing promises to remain affordable for the long term.

Our active non-profit community has been involved for many years in helping to shape the programs that are offered by the Bank of America Community Development Bank. This bank, based in California, has understood the unique needs of a housing market, which has the dubious distinction of being the least affordable in the nation.

We have benefitted by this California presence, and have counted Bank of America as an important partner in addressing local needs, and in building local capacity. For example, the Bank of America Challenge has encouraged talented graduate students to study affordable housing development, and to compete with their peers by developing affordable housing proposals. This Challenge competition has generated competent staff



for many non-profit agencies, thus helping to build local capacity. We would like to see this and other innovative Community Development Bank programs continued.

NPH is concerned that NationsBank will extend the use of their own for-profit CDC to California, and will thereby compete for scarce resources and inadvertently undermine local organizations.

In addition, the Bank America Foundation has been an important source of support for our industry. If this foundation is integrated into the central corporate structure in North Carolina, our access to these funds will almost certainly diminish. We want to see a written commitment to contribute a percentage of the Bank's earnings to charitable contributions in California.

Since most of NPH's members are engaged in producing multifamily housing, we expected to see an increased CRA commitment to multifamily housing as a result of this merger. We note with disappointment that the bank's proposal is not targeted in regards to serving low income families, non-profit developers or in regards to offering a flexible mix of financing including construction, term, bridge, bond program and tax credit investments. All these goals need to be specific, and in writing.

The business relationships of our members with Bank of America have developed over many years. We don't want to lose this local presence, nor do we want a new huge bank replacing local staff and making decisions for California from North Carolina, or "reinventing the wheel" when it comes to community lending. Our members have benefitted from the lively spirit of competition in community lending which has resulted in lower costs for loans and more flexible terms. The huge merger that is proposed will in the long run curtail competition and roll back the gains we have made, therefore we urge you to consider these issues carefully.

Sincerely,

Fran Wagstaff

Cc: Diane Spaulding, NPH

Panel #27
Lue Scott



CALIFORNIA COMMUNITY ECONOMIC DEVELOPMENT ASSOCIATION

TESTIMONY TO THE FEDERAL RESERVE ON THE APPLICATION FOR
NATIONSBANK TO MERGE WITH THE BANKAMERICA CORPORATION
JULY 10, 1998

Good Afternoon. My name is Lue Venia Scott and I am a program manager in the Oakland office of the California Community Economic Development Association. My testimony today is on behalf of CCEDA and its Executive Director, Ralph Lippman.

CCEDA is a statewide membership association of community based organizations that are actively engaged in the revitalization of California's low income neighborhoods. In their respective communities CCEDA members produce results in many areas of community building including, but not limited to, the production of housing, industrial and commercial space, employment training, job creation, business start up and expansion, and the provision or facilitation of human services.

State associations provide clearinghouses for information and action. To build the capacity and expand the resources for community based organizations, thirty state associations advocate on behalf of the nation's 2,200 CDCs. Critical partners are banks like NationsBank and the Bank of America. Forty-eight percent of the nation's community development corporations reported the receipt of more than fifty thousand dollars in grants, investments, or loans in a National Congress of Community Economic Development study published in 1993. "Against all Odds". The amount has substantially increased over the last five years as deal structure changed, subsidies shrunk, and our members grew more financially sophisticated.

State associations and CDCs are very concerned that mergers may result in the attenuation of partnerships with banks for community economic development projects. In this time of devolution and consolidation of resources at the state level any decline is a serious concern. We have found that local groups and state associations have a much more difficult time negotiating support from their banks following a merger.

Page two of two

This is particularly underscored today. The Bank of America, its foundation and the Community Development Bank have been unflagging partners of the work of CCEDA and its members. Jim Wagele, Susan Howard, Don Mullane and Mike Mantle have been responsive and supportive. The rural initiative and the economic initiative are national models. To be at this juncture in the merger and

still have uncertainty in the absence of written commitment about the organizational fate of the CD Bank, the Initiatives, and the Foundation's targeting is, in our view, unacceptable. California deserves better.

We believe the CD Bank has acquired considerable knowledge and expertise regarding development in California. We would like to see it stay here.

We note the integral role the Foundation has played in the operation of California's community based groups. A percentage of the Bank's earnings would ideally be earmarked for California's communities, with a decision making group that is close to the ground in the west, not the southeast.

We would like to see an established target goal that would help us to back into conclusions regarding how far the new Initiatives will go.

Finally, the nation's state CDC associations want a firm commitment from banks that are merging to work with their state associations. We want every financial institution to recognize that policy advocacy and training are important to the viability of community economic development. We suggest that merging institutions invest a portion of their resources to support the work of state CDC associations. An alternative approach beyond a direct multiyear commitment to CCEDA and groups like us, such as Housing California, could be for the banks to utilize the National Congress for Community Economic Development as an intermediary which would serve as the granting entity and then distribute funding to affiliated state groups in which the newly merged entity would do business.

We believe that Banks understand that a rich and vibrant environment is good for the community and for business. We believe that they understand that public policy is moving to the States. We urge a written commitment to support California and state associations.

**Remarks Presented to
Federal Reserve Bank of San Francisco
In Support of the
NationsBank/Bank of America Merger**

Donald R. Lawhorne
President & CEO
MESBIC Ventures Holding Company

July 10, 1998

Presentation to Federal Reserve Bank of San Francisco
On Behalf of NationsBank/Bank of America
By Don Lawhorne
July 10, 1998

Good afternoon. I am Don Lawhorne, President and CEO of MESBIC Ventures Holding Company, and a Co-Founder and Managing Director of Pacesetter Growth Fund, L.P. Pacesetter is a \$46.5 million private equity fund. MVHC is the owner of two of the nation's oldest SSBICs, which were each established in 1970. MVHC has over \$64 million in assets with a portfolio of over 50 thriving small businesses. These funds provide equity capital to growing businesses owned and managed by mostly Hispanic-American and African-American entrepreneurs.

In light of time restraints, I am submitting my remarks in writing for the record. I will use this brief time to present the highlights from my formal remarks.

The strategic and economic rationales for the proposed merger of NationsBank and Bank of America are well founded in light of growing competitive pressures triggered by the global market place and perhaps, more importantly, today's fast growing digital economy. It is well known today that our nation has entered a new industrial revolution where technology will change how we work, how we shop, and how we handle financial transactions. These changes will be more radical than any other time in the history of our country.

The digital economy and global market will further fuel consumer expectations for excellent services and competitive products. This will require extraordinary capabilities of the nation's banking system which will be best served through nationwide branch banking. This "merger of equals" is essential to our nation's own competitiveness by serving a highly diverse customer base in 29 states and 38 countries.

We are all familiar with the Fortune 500 companies who dominate the business presence in virtually every major city. We have grown accustomed to how the stock market has played a major role in creating wealth for millions of Americans through stock ownership programs such as 401k's. We see reports of initial public offerings almost daily where company founders and their financial backers achieve phenomenal returns on their equity investments. Today's highly competitive fast growing companies have the best chance of being tomorrow's Fortune 500 employers. These companies are fueled by *equity capital* furnished by mostly institutional investors such as banks, insurance companies, and pension funds.

I am here to support the NationsBank/Bank of America merger because it will provide access to *larger* amounts of equity capital for the nation's most *underserved equity market*: firms owned and led by minority entrepreneurs.

NationsBank entered the Texas market by acquiring one of the state's oldest financial institutions. In 1992, it announced an unprecedented goal to provide \$10 billion over ten years for community development lending and investment.

At that time, NationsBank selected MESBIC Ventures as its national benchmark for providing equity financing and management assistance to create competitive small businesses owned and managed by Hispanic-American, African-American, Asian-American, Asian-Indian, and Native-American entrepreneurs. After much due diligence, our selection began with an initial equity investment of \$2 million and had the personal endorsement of Ken Lewis, president of NationsBank; Cathy Bessant, NationsBank's chief community investment officer; and the Texas executive team. This initial commitment went beyond dollars to include active Board representation by Cathy Bessant (1991-1996) and now Deborah Cannon, NationsBank executive vice president based in Dallas, Texas.

NationsBank's financial commitment and top level executive involvement set the stage for building MESBIC Ventures into what it is today—the nation's largest, most successful equity-oriented SSBIC in the nation. The NationsBank financial commitment did not end with \$2 million.

In 1997, we launched Pacesetter Growth Fund, L.P., a \$46.5 million unregulated private equity fund. NationsBank made a \$5 million commitment to the new fund, making it the largest single bank limited partner. Again, Ken Lewis personally approved the local team's recommendation which was championed by Tim Arnoult, southwest/midwest region president, and Deborah Cannon, MESBIC Board member and NationsBank executive vice president.

Because of NationsBank's leadership, vision, and unwavering commitment to our *underserved niche*, we have provided over \$100 million of equity-type financing to over 100 minority-owned firms throughout the Southwest, particularly Texas and California, during this decade. As we like to say in Texas: "*NationsBank walks its talk!*"

Let me illustrate just how underserved this market is and how this merger will help. Just a few short years ago, the Small Business Administration (SBA) was contacted by the major automobile manufacturers regarding what they saw as a major problem in its supplier ranks caused by global competitive pressures. They had projected by the year 2000 that their smallest suppliers would have to have at least \$200-300 million in annual sales to be competitive. This would lead to numerous consolidations of suppliers caused by dramatic downsizing of supplier ranks where substantially fewer are chosen to do substantially more. In some cases, the automakers would drop from 1,500 suppliers to 500 or less within a relatively short period of time—often one year or less. This was being done as part of a world-wide focus on total quality management where it has been proven that fewer, larger players mean better quality, better service, and more innovation, much like the proposed merger before this committee today.

This industry analysis pointed out an unintended consequence: very few minority-owned firms would make the cut. The automakers saw *one single barrier holding back minority firms from benefiting* in this global trend: access to equity capital to ensure minority-owned firms would have the opportunity to build highly competitive and much larger enterprises needed in the new millennium.

Since 1993, there has been an estimated \$100 billion placed in private equity partnerships here in the U.S. That's the good news—plenty of equity capital is available. The bad news is less than 1% of this capital went to funds focused on providing equity capital to build larger, more competitive firms owned and led by minority entrepreneurs. While pension funds, through alternative investment, provide most of the private equity to partnerships, banks are major players in numerous private equity funds throughout the country.

U.S. Congressional leaders, such as Maxine Waters (D-CA), William J. Jefferson (D-LA), and Esteban Edward Torres (D-CA), have been instrumental in helping to attract new private capital from banks and pension funds to alleviate this problem. The SBA has revitalized its SBIC program. Today, approximately ten funds have benefited from their efforts—far less than the need. And, we believe divestitures and consolidations can be the single most important source for building and creating larger minority business enterprises (MBEs) during the balance of this decade. We must have larger amounts of equity capital.

How will this merger help address this *horribly* underserved niche? Again, I speak from experience: NationsBank has 20:20 vision when it comes to serving its markets. As I mentioned earlier, barely five years ago they made a \$10 billion commitment to underserved niches, including low income housing; small business lending; and equity investments aimed at building larger, more competitive small businesses including those owned by minority entrepreneurs. The NationsBank/Bank of America merger includes *a 10-year, \$350 billion commitment for community development lending and investment. This quantum leap commitment is backed by a leadership team who will walk their talk!* This team will exceed their commitment, especially in underserved niches. I say this from having had NationsBank as a major partner in our progress each day over the past decade. They initially committed \$2 million and later added \$5 million to our new private equity fund.

Highly effective community investment for NationsBank is not just a financial commitment. It is a mosaic that spans the entire spectrum of a community's financial needs. NationsBank has mastered the art of community investment. It begins with their ensuring access to services through retail outlets in the highly diverse markets they serve. They are a leader in low income housing, revitalizing neighborhoods and partnering with community groups. Their small business continuum has micro-lending at one extreme, then various levels of small business lending in the middle, and *equity capital* at the other end to build highly competitive firms for tomorrow's opportunity.

As a leading evangelist for our niche, I want tomorrow's Fortune 500 companies to include Siméus Foods International, Inc. (SFI), the nation's second largest food processing company. This highly competitive company is led by Dumas M. Siméus, former president and CEO of

TLC Beatrice International, the nation's largest black-owned company. Siméus wants to build a billion dollar international company.

Percy Berger, NationsBank executive vice president, shares Mr. Siméus' vision and recently invited Montgomery Securities to assist SFI with a very promising acquisition that would double his revenues. It will require more equity capital.

NationsBank played a similar role by taking a major stake in a sizable syndication for Radio One, the nation's largest African-American owned broadcast company. I want to see Radio One, led by Cathy Hughes, join the Fortune 500 ranks at the turn of the century. It will require more equity capital.

Let me add a few words about Bank of America. Like NationsBank, Bank of America entered the Texas market through acquisitions of other financial institutions in the early nineties. They, too, made a commitment to community development and investment. We were fortunate enough to have been picked by Bank of America Texas' executive team as a major player in their community investment plans and received a substantial equity commitment that made Bank of America Texas our third largest bank shareholder and key supporter for our niche.

Tom Hay, senior credit officer in Texas, serves on the MESBIC Board and provides ready access to Bank of America resources for our portfolio clients. In addition to Bank of America's direct financial involvement in our MESBIC, our firm's national stature and investment focus has allowed our niche to benefit further from Bank of America's involvement through Opportunity Capital, an Oakland, California-based SSBIC.

Bank of America is a founding shareholder of Opportunity Capital I, one of the nation's oldest SSBICs established in 1970. Since then, this fund has become one of the nation's most active providers of equity capital, along with Opportunity Capital II and Opportunity Capital III. Bank of America's total commitment for Opportunity Capital exceeds \$25 million. We are co-investors in several financings, including SFI and Radio One, with Opportunity Capital and its exceptional management team led by Peter Thompson, CEO.

So I believe Dave Coulter, chairman and CEO of Bank of America, when he says that his "...enthusiasm and excitement for banking comes from providing opportunities to millions of individuals, families, and companies, large and small. Playing the role that we do in their success, and watching it ripple through their communities, is what banking should be all about." (Excerpts from remarks at Bank of America's Annual Shareholder Meeting, May 21, 1998). And, I believe Hugh McColl when he says, "...the greater our financial resources, the greater our investment will be in the future of the communities we serve." ***\$350 billion says it all!***

The combination of these two banks will be better for all consumers and all businesses, large and small. These two extraordinary, well-led companies will be the benchmark for banking in the new millennium. And the \$350 billion commitment to community lending and

investment is unprecedented and will provide a major breakthrough for the historically underserved markets with \$180 billion for small business lending, including equity capital for minority and non-minority business; \$115 billion allocated for lower income housing; \$25 billion for economical initiatives, such as community development corporations; and \$30 billion for consumer loans for borrowers at or below 80% of median income.

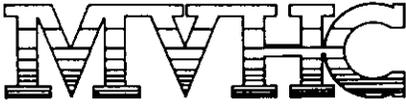
Hugh McColl is right when he told the California Bankers' Association this past May that, "...this merger will allow even *greater access to capital, the fuel that keeps the economy running.*" Equally important, it will make substantially more equity capital available for funds providing equity financings to minority-owned businesses.

In closing, minority business development is an economic imperative with important social consequences only occurring from the outcome of highly competitive, profit-making, growing firms owned by minority entrepreneurs. This requires access to capital.

This paradigm shift has been triggered by two major forces. First, after nearly twenty years of government and private sector initiatives, most minority businesses, particularly those owned by African-Americans and Hispanic-Americans, remain very small with well under \$1 million in annual sales. This has become even more troublesome against the realities of Workforce 2000 and the growing economic disparities between the majority community and minority communities. This is most acute for African-Americans and Hispanic-Americans, who make up the vast majority of America's minority population. Secondly, the new economy will require that minority-owned firms become larger, much larger to compete in the global economy.

Research by Tim Bates in his book, "Banking on Black Business," emphasizes that the nation's efforts to change the plight of the truly disadvantaged must be aimed at building growing firms no matter where they are located. As with all other business studies, jobs come from growing, competitive firms. Growth requires equity capital.

Thank you very much for allowing me to share my views on why this merger is important for the 21st century.



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DONALD R. LAWHORNE

Donald R. Lawhorne is President and CEO of MESBIC Ventures Holding Company (MVHC) and a Co-Founder and Managing Director of Pacesetter Growth Fund, L.P. (Pacesetter).

Pacesetter is a \$46.5 million private equity fund. MVHC is the owner of two of the nation's oldest SSBICs, which were each established in 1970. MVHC has over \$64 million in assets with a portfolio of over 50 thriving small businesses. These funds provide equity capital to growing businesses owned and managed by mostly Hispanic-American and African-American entrepreneurs. These two funds combined represent nearly \$110 million in venture capital.

An experienced speaker, Lawhorne has 16 years of venture capital experience, three years as an entrepreneur in distribution and manufacturing, five years as a college teacher and administrator, and several years of engineering and manufacturing experience.

Mr. Lawhorne has received numerous awards for small business initiatives from various groups and is a past recipient of the Entrepreneur of the Year Finalist Award, sponsored by Ernst & Young and *Inc.* Magazine. Mr. Lawhorne is the first individual to serve a three-year term as Chairman of the National Association of Investment Companies (NAIC), the trade association for the nation's SSBICs. He is a former member of the Small Business Administration's prestigious SBIC and SSBIC Investment Advisory Councils.

He has testified before the small business committees of the U.S. Senate and U.S. House of Representatives regarding how to improve access to equity capital for the nation's most underserved market—minority-owned companies. He also chaired the SBIC Council's Regulatory Committee and received the NAIC Paradigm of Excellence Award for distinguished leadership and outstanding work, on behalf of the SSBIC industry.

He earned his MBA from Pepperdine University and BBA from Southern Methodist University.

MVHC creates Texas' largest black-owned food manufacturing company

DALLAS—MESBIC Ventures Holding Company (MVHC) announced it has closed a \$55 million transaction for Dumas M. Siméus, former president and chief operating officer of TLC Beatrice International, a \$2 billion food maker and distributor with operations in 25 countries.

MVHC served as lead investor in Siméus' acquisition of Portion-Trol Foods Inc., a 140,000-square-foot food processing plant based in Mansfield, Texas with over \$100 million in annual sales. According to Don Lawhorne, MVHC's president and chief executive officer, "This transaction represents what we do best: provide equity capital and investment leadership to create fast growth companies owned and led by mostly Hispanic-Americans and Black-Americans."

The company, called Siméus Foods International (SFI), will make a variety of food products such as sausages, steaks, soups, cheese sticks, onion rings and related value-added items used throughout the restaurant industry. This venture makes SFI the largest black-owned manufacturing company in Texas and the second largest foodmaker in the country behind TLC Beatrice International.

According to Lawhorne, "SFI will create a much needed paradigm shift for Texas where current expectations and commitments for His-

panic-American and African-American company builders are often limited — usually very small, socially driven, and totally void of the principles of wealth creation."

Siméus added, "My primary job is to deliver extraordinary results for all SFI stockholders, including customers, teammates, suppliers and investors. My goal is build a \$1 billion international food processing company based here in Texas."

Other large Texas-based MVHC investments include Houston-based Ninfa's, a 50-unit Hispanic-owned upscale Mexican restaurant chain; H-R Industries Inc., the state's largest Hispanic-owned printed circuit board manufacturer located in Richardson, Texas; McDonald Technologies International Inc., the state's largest Asian/Indian-owned contract manufacturer; and Hermana Inc., the state's largest Hispanic-owned airport concession operator.

MVHC has 100 percent ownership in three Specialized Small Business Investment Companies (SSBICs); MESBIC Ventures, Inc. (MVI), Alliance Enterprise Corporation (AEC), and Tower Ventures Inc. (TVI). All three are licensed under Section 301(d) of the Small Business Investment Act of 1958. On a consolidated basis, the Company has assets that exceed \$45 million and ranks in the top five of the nation's nearly 80 SSBICs.

SMALL BUSINESS

Business in the '90s

WHERE THE MONEY ISN'T

Minority-owned firms often struggle to get venture financing. Syncom wants to change that.

By **JEFFREY A. TANNENBAUM**

SIX YEARS AGO, when Amador S. Bustos was looking to buy his first radio station, the San Jose, Calif., station manager predictably was rejected by several banks. After all, he had never owned a business before, and he was Mexican-born in a financial world where barriers to capital are highest for blacks and Hispanics.

But a strange thing happened when he came across Syncom, a Silver Spring, Md., venture-capital group that specializes in financing start-ups run by minority entrepreneurs. Not only did Syncom find money for Mr. Bustos, but the investor group also made his business plan more ambitious. So Mr. Bustos's Z-Spanish Radio Network Inc., Sacramento, Calif., began by taking over three California radio stations and providing each with the same Hispanic-oriented content, delivered by satellite.

Having picked up the tempo at Syncom's urging, Z-Spanish now owns 21 radio stations in four states and supplies programming to 29 others. "Often, they've had more of a vision for the business than I've had," says Mr. Bustos, whose enterprise Syncom values at about \$100 million.

Now, Syncom is hoping to show a similarly aggressive vision in its own fund raising. It hopes to raise a \$300 million fund, the largest venture-capital pool ever earmarked for minority companies. That's pretty ambitious stuff for a firm whose two

existing limited-partnership funds together raised initial capital of \$53 million.

Playing by Capitalist Rules

But Syncom has proved that it can succeed in arguably the toughest piece of the venture-capital marketplace: minority firms investing in minority businesses. Indeed, the \$300 million goal isn't rattling some of the firms' backers. "Syncom, we feel, is a brand," says JoAnn H. Price, a partner in Fairview Capital Partners Inc., Farmington, Conn, which has invested \$18 million with Syncom. The partners, she says, "have a reputation."

The partners aim to prove to institutional investors that venture-capital investments in minority-owned companies can be just as profitable as mainstream venture-capital investments, if not more so. "I can change the world!" declares 55-year-old Herbert P. Wilkins Sr., Syncom's senior partner.

Their motives, of course, aren't solely altruistic; on top of management fees, the partners get 20% of profits realized by the funds. But that's part of the point: Syncom wants to succeed in a capitalist society by playing by capitalist rules.

Indeed, the partners chafe at the mention of investment as an act of charity. Consider, for example, the \$63 million New York City Investment Fund, founded by world-class financier Henry Kravis. One purpose of the fund is to seed companies of

minority entrepreneurs. But investors don't look for a gain: Some 45% of the fund was raised as outright charity; management pledges to use "best efforts" to return the other 55% in 15 years, without any interest or capital gains; if underlying investments are profitable, the money will be put into further investments.

Mr. Wilkins of Syncom, among others,



Herbert P. Wilkins Sr.

Life & Casualty Insurance Co. and Travelers Insurance Co., to kick in \$500,000 each. Mr. Wilkins recalls excruciating negotiations that seemed way out of proportion to the amount of money involved. "We called that the hoops deal," he says, "because we had to jump through hoops."

To help create investment opportunities, the two managers traveled to legislative hearings in several large cities, where they lobbied for minority participation in the then-nascent cable-television industry. "The rap always is: These minority people have never done any of this before," Mr. Jones says. "We had to show that not only was the money there, but the expertise was also there."

When minority investors did win a franchise, they often turned to Messrs. Wilkins and Jones for financial help.

"They were a godsend, period," says J. Barry Washington, a black entrepreneur who won a cable-TV franchise in Newark, N.J., in 1980. Syncom provided financing during a crucial period, and helped find larger investors. All told, Mr. Washington raised \$9.5 million.

But even Mr. Washington's story is emblematic of the capital shortage that minority entrepreneurs and their backers often face. Syncom lacked the deep pockets or clout with larger investors to keep funding Mr. Washington's growing company, Connections Communications Corp., which was still unprofitable.

In a bind, Mr. Washington sold the cable system in 1986 for \$33 million. While that gave investors a big profit—Syncom more than tripled its \$625,000 investment—it was far less than they could have made by holding on to the system. Just six years later, CableVision Systems Corp. paid \$78 million for Gateway Cable, Connections' successor.

Stuck in Same Level

For Syncom, the pattern of could-have-beens would persist. "We've created value in numerous cases, but even after doing everything right, we've had to leave a lot of money on the table because we don't have the capital to take our deals to the next level," Mr. Jones says.

Still, Syncom was performing much better than most other investment companies that relied wholly or heavily on the Mesbic program. One reason was specialization in niches in the booming media field, such as inner-city radio and cable TV. In contrast, most Mesbics dabbled in many areas. And while many other Mesbics tried to go it alone, Syncom became adept at syndicating its deals, which raised more money and spread the risk.

The formula that Messrs. Wilkins and Jones developed was twofold: Use rigorous screening methods to find the right deals, and then give entrepreneurs sound advice to help ensure that investments succeed.

One early client, Cathy Hughes, a black radio executive who was seeking money to buy a Washington station, says, "I was ter-

Going Their Own Way

Investment funds and companies that invest primarily in minority-controlled businesses now have much more in private assets under management than in assets from the government-originated SSBIC program. A look at the largest (dollars in millions):

FUND/INVESTMENT COMPANY	LOCATION	SSBIC ASSETS	PRIVATE ASSETS	TOTAL ASSETS
TSG Capital Group	Stamford, Conn.	\$20	\$225	\$245
Fairview Capital Partners	Farmington, Conn.	—	200	200
Bastion Capital	Los Angeles	—	100	100
Medallion Funding	New York	50	50	100
Penman Asset Management	Chicago	—	90	90
Syncom	Silver Spring, Md.	25	53	78
Mesbic Ventures/Pacesetters	Dallas	40	38	78
Allied Capital	Washington	50	—	50
Inroads	Evanston, Ill.	—	50	50
Savant Group	Santa Monica, Calif.	—	50	50
TOTAL		400	1,091	1,491

*Total includes double-counting of roughly \$100 million in assets that funds have invested in other funds.

Source: Fairview Capital Partners Inc.

rified; both of them are very, very businesslike and no-nonsense. I realized I had a serious task in front of me to prove I was credit-worthy." Although she had been running a radio station, Ms. Hughes had never owned a business.

At the first meeting with Messrs. Wilkins and Jones, Ms. Hughes recalls, "they asked me if I had a business plan. I said my plan was to be successful in business. They thought I was joking." Over the next several months, the two men helped Ms. Hughes develop a detailed written plan, "probably the size of a New York telephone directory," she says.

Eventually, Syncom helped finance the start-up of Ms. Hughes's company, Almic Broadcasting Inc., later renamed Radio One Inc. When Almic got into trouble early on, Mr. Jones, who says "there's a lot of psychology involved" in venture finance, gave pep talks. "We told her the only way she could fail was if she let herself fail," Mr. Jones says. "She bought into that and decided not to fail."

Ms. Hughes says the sometimes-acerbic Mr. Wilkins, whose good humor can turn caustic quickly, provided "tough love" and minced no words; the gentler Mr. Jones soothed the pain.

The good cop/bad cop routine worked.

Today, Radio One and a sister company, Radio One of Atlanta Inc., own 11 stations in four markets, employ more than 300 and say annual revenue exceeds \$40 million. That's good news for Syncom, which invested \$729,000 and values the stake it still holds at about \$14 million. (A Syncom fund also has a \$1 million investment in the sister company.)

Aiming High

If the Syncom managers were more skillful than those at many other Mesbics, they were also much more ambitious. And in 1990, they became the first Mesbic operators to raise a much larger pool of money.

On the basis of Syncom's successful investments in Mr. Washington's company and others, Messrs. Wilkins and Jones tried to raise \$70 million for their first limited-partnership fund, Syndicated Communications Venture Partners II L.P. This would be a leap forward, since Syncom up to that point had total capital of only \$14 million.

Mr. Wilkins says he, Mr. Jones and a third partner for Syncom II, Duane C. McKnight, paid calls on institutional investors. The original company, he told pension-fund managers, was bringing in 20% annual returns. "The minority market is so underserved that we can take the cream," he continued. "We can get the best deals, almost without competition." Seven investors—including Edison International's Southern California Edison pension fund, which committed \$10 million—bought in, and Syncom II attracted \$35 million, half the sum they were seeking.

Now, Syncom could break free of the confining Mesbic structure, which, among other things, held down the pay for Mesbic managers. Just as important, Syncom's bosses now could espouse their philosophy of undiluted capitalism without getting resistance.

Relying on Track Record

According to Dr. Bates of Wayne State, the SBA traditionally has focused on help-



Duane C. McKnight

fears that efforts such as Mr. Kravis's help reinforce the notion that investing in minority enterprises has to be a money-losing proposition. "I call this kind of capital 'sorry capital,' money that people put up when they feel sorry for minorities," Mr. Wilkins says. "That undermines minorities because recipients don't need to develop real business discipline. That's foreign to the American system."

Kathryn S. Wyde, president of the Kravis-founded fund, says she thinks Mr. Wilkins is wrong. "We will be applying strict business tests to our investments," Ms. Wyde says. She adds, however, that many of the fund's investments will be smaller and riskier than those usually favored by venture-capital firms.

Capitalist discipline is certainly paying off for Syncom and its clients. Many of the more than five dozen entrepreneurs that Syncom has helped finance are creating new minority wealth and jobs.

One client, **WorldSpace Corp.**, in which Syncom invested \$500,000 at a critical point, expects to be a global enterprise, having since raised nearly \$1 billion from foreign investors for a digital-radio network it is building. Though its network isn't yet operational, WorldSpace, based in Washington, already employs more than 200 people.

In raising money for a start-up, "you're almost like a trapeze artist, going from one bar to the other," says Ethiopian-born Noah Samara, WorldSpace's founder. "Each piece of money is critical to get you to the next stage." Mr. Samara says Syncom's funding came in just when the company's initial \$1 million stake, from other sources, was running out. "We were at a stage where we couldn't go to a bank or to major investment houses," he adds.

As minority business owners search for capital, their hopes often hinge on such firms as Syncom. While minority-controlled investment companies nationwide have nearly \$1.4 billion in estimated assets

under management, that's still less than 3% of the \$54 billion raised last year alone by all private equity firms, according to Private Equity Analyst, a Wellesley, Mass., newsletter. And how much more flows into minority-oriented funds will depend on the returns registered by the companies in the next few years.

"There aren't enough real track records out there yet to attract a lot of investment into minority venture-capital firms," says Stanley Pratt, a managing partner in Boston for Abbott Capital Management L.L.C., a New York-based money-management firm that works with about a dozen pension funds.

The minority-venture-capital industry got its start in the U.S. only a generation ago. But its short history is littered with failures. To spur investments in minority enterprises, the Nixon administration in 1969 created the Minority Enterprise Small Business Investment Company, or Mesbic, program, which spawned scores of minority-oriented investment firms. Big companies, such as General Motors Corp., seeded some Mesbics, but most were formed by investors with less than \$1 million in funding—and sometimes as little as \$150,000.

But of 141 Mesbics licensed by 1980 (others sprang up later), only 32 survived into 1994, according to a study by Timothy Bates, a Wayne State University economist in Detroit; the Small Business Administration says it doesn't quarrel with those numbers.

Most Mesbics were undercapitalized, and thus unable to hire good managers to oversee investments. Worse, some Mesbics were never serious about investing. Instead, they borrowed money cheaply from the SBA, deposited it into banks at higher interest rates and pocketed the spread, Dr. Bates says.

Faced with these problems, changing political attitudes and budgetary pressures, Congress in 1995 ended all special breaks for the Mesbics, by then called Specialized Small Business Investment Companies, or SSBICs. Despite this checkered history, these vehicles have channeled more than \$2 billion into minority businesses, if only in \$100,000 chunks, on average, according to SBA figures.

But along the way, there have emerged only about a dozen firms capable of producing serious returns for outside investors, Dr. Bates estimates. "Without really topflight management, a Mesbic had no chance to succeed," he says. Many "lent money to struggling, marginal businesses and lost their shirts."

Syncom's story—often as bitter as it is sweet—shows how one firm kept its shirt, and is steadily breaking ground in minority-business finance.

Syncom began in 1977 as Syndicated Communications Inc., a closely held media-investment company organized by Opportunity Funding Corp., a nonprofit entity with social aims. The late Jack Gloster, a charismatic executive who ran Opportunity Funding, raised nearly \$1.8 million

and hired Mr. Wilkins, then 35 years old, to oversee Syncom. To leverage its scant capital, the company in 1978 took \$1.3 million of its funding and set up a Mesbic subsidiary, Syncom Capital Corp., through which Syncom mostly operated until late 1990.

Scant Wealth

Mr. Wilkins says he had long dreamed of building a venture-capital firm to aid minorities. "I spend part of almost every day thinking about what holds black people back," Mr. Wilkins says. "It has nothing to do with black people, but the wealth that they control is barely detectable on any scale."

The son of a Boston house painter, Mr. Wilkins trained to be a machinist but says he was denied a union card because of racism. So he went to college and, with help from an employer, to Harvard Business School.

After admiring how venture capitalists had seeded Digital Equipment Corp. and other famous start-ups, Mr. Wilkins says he and two others tried to raise a \$10 million fund to invest in budding minority businesses. They got nowhere, but Mr. Wilkins later went to work in venture capital.

At Syncom, Mr. Wilkins was joined in 1978 by Nebraska-born Terry L. Jones, a brainy beanpole of a man who a decade earlier, in Hartford, Conn., had helped lead a student revolt over scholarship policies at Trinity College. After Mr. Jones earned an M.B.A. from Harvard, he headed for Africa, where he helped start a savings-and-loan institution in Kenya and other ventures. On returning to the U.S., Mr. Jones went to work for a foundation that gave minority entrepreneurs advice, but not money.

Eager to help such people get actual funds, he joined Mr. Wilkins at Syncom, only to learn that firm itself was hard up for money. The two managers spent much of their time seeking new investors, and finally got two insurance companies, Aetna



Terry L. Jones

PORTRAITS BY JULIAN PUCKETT

ing the most disadvantaged entrepreneurs, not those with the most education and corporate experience. But Syncom was seeking the brightest and best. "The people we financed were constantly called into question by the SBA," Mr. Wilkins says. (The SBA confirms that recipients of Mes-bic financing had to be "socially disadvantaged" or "economically disadvantaged.")

Syncom III came in 1996, armed with \$18 million in investment capital, with Fairview Capital Partners as the sole limited partner.

To be sure, it is largely the record of the Syncom II and III funds that will count when the company tries for a much bigger stake later this year. Mr. Wilkins says the existing funds plan a partial payout by year end of at least \$50 million—consisting of \$12 million in returned capital and \$38 million in profit.

Total returns are tricky to predict until the funds are completely cashed out, but Syncom II and III seem to be doing fine, in-

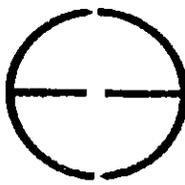
vestors say. Fairview says it is confident that Syncom will top 25% in annual returns on Fairview's Syncom III investment.

That's not to say that all of Syncom's deals work out. Mr. Wilkins estimates that the firm has lost money on as many as 20 deals, with total wipeouts in about 15. Recently, Syncom closed the books on \$6.1 million in losses on a struggling Los Angeles cable-TV system, which Syncom had bought, gambling on a turnaround. "There are always going to be some deals that you just can't make work," Mr. Wilkins says.

Even if the next fund never reaches Syncom's \$300 million target, Mr. Wilkins vows, he'll keep plugging away. "I'm an incrementalist," he says, "but I'll get where I want; I'll figure out how to do it. We've got to convince the world that Syncom can make a difference." y

MR. TANNENBAUM IS A WALL STREET
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FOUNDING CHAIRMAN

July 7, 1998

Ms. Joy Hoffman
Community Affairs Officer
Federal Reserve Bank of San Francisco
Division of Banking Supervision and Regulation
Mail Stop 620
101 Market Street
San Francisco, CA 94105

Dear Ms. Hoffman:

The California Council for Environmental and Economic Balance (CCEEB) is a coalition of California business, labor and public leader established in 1975 by the late former Governor Edmund G. "Pat" Brown to collaborate on creative approaches to achieve both our environmental and economic goals. We focus on issues such as job creation, economic development, regulatory reform, environmental protection, infrastructure investment and fiscal reform.

Everyone should be aware of Bank of America's exemplary internal efforts to lower their own corporate environmental operational impacts, but perhaps what is less well known is the commitment and leadership the Bank has shown in helping California face up to the broader environmental public policy challenges confronting us. Their landmark efforts in crafting workable proposed solutions to California's most intractable issues, such as land use and sprawl, water, and habitat conservation are nothing short of remarkable.

For several years, we have worked with Bank of America to help bridge the gap between the environmental and business communities. In these efforts Bank of America has repeatedly demonstrated their commitment and skills in building collaboration between historically adversarial interests. We are proud to have a good working relationship with Bank of America and share the same values. In fact, CCEEB gave special recognition to Bank of America in 1995 by presenting our prestigious Edmund G "Pat" Brown Award to Richard M. Rosenberg, Bank of America's former chairman and CEO, for exemplifying the spirit of environmental and economic balance.

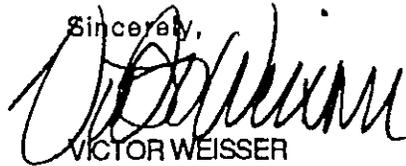
Currently, we are pleased that Bank of America's Environmental Program is actively participating in the California Environmental Dialogue (CED), a collaboration between environmental, business and government leaders working to find common ground and workable solutions to thorny challenges in such areas as cost-effectively reducing mobile sources of air pollution and demonstrating the linkage between habitat protection and sustainable economic growth. Leaning heavily on Bank of America's past experience in collaboration, we have seen these CED members move from conflict to dialogue to actionable solutions. The Bank's leadership role in this work has been a key in making the CED successful.

Joseph Finkler
Patricia Weissen
7/10/98
Panel 28

We fully expect the merged Bank of America Corporation to continue working in California on our established bridge between the business, government and environmental communities. In fact, I would anticipate an expansion and export of these efforts to other areas as the merged Bank of America Corporation pursues new national partnerships between various stakeholders in our environment and economy. I see this merger as an opportunity to leverage Bank of America's leadership role on a national scale and in more geographic locations.

CCEEB looks forward to a continued relationship with the new merged Bank of America Corporation.

Sincerely,

A handwritten signature in black ink, appearing to read 'Victor Weisser', written in a cursive style.

VICTOR WEISSER
President



Panel 28

Nevada MicroEnterprise Initiative (Formerly Nevada Self-Employment Trust)
A Business Development Corporation

Testimonial from Gerald C. Alcasas
Executive Director, Nevada Microenterprise Initiative.

Proposed Merger between Bank of America and Nations Bank.

July 10, 1998

I appreciate the opportunity to inform this distinguished panel and/or other interested parties by means of personal testimonial on the subject of the proposed merger. Upon completion of this testimonial is my intention that there is understanding of the past involvement and commitment Bank of America has provided to microenterprise in Nevada.

The Nevada MicroEnterprise Initiative (NMI) is a statewide microenterprise organization. In our capacity as a non-profit organization, we aim to help low- and moderate-income individuals achieve economic self-sufficiency through entrepreneurship. NMI offers entrepreneurial training, technical assistance, and microloans to develop the entrepreneurial skills of our clients.

Our training classes focus on what to consider when starting a business as well as the development of a business plan. Topics include determining your target market, cash flow, bookkeeping, marketing and financing your business. We believe this training is the key to the success of our clients who, in most cases, have little or no business experience.

Our Microloan fund was established in 1993 to fill a gap in access to credit for individuals wishing to start or expand a business. Our clients typically have small loan requests, poor credit or job history, or little or no business experience, which make them 'unbankable'. With our nontraditional financing a client can access up to \$7,500 for a startup and \$25,000 for an existing business. Our successfulness in this 'risky' lending is based on our technical assistance program. We work one-on-one with our clients, to assist them with any concerns or challenges they may encounter. This support is crucial to the success of the business and repayment of the loan.

1600 E. Desert Inn Road, Ste. 206A, Las Vegas, NV 89109
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116 E. 7th Street, Ste. 3, Carson City, NV 89701
(702)841-1420 Fax (702)841-2221

Nevada's only SBA-designated Microloan Program and Women's Business Center

Since the creation of our Microloan fund in 1993, Bank of America has played a key role in the establishment and continuation of this program. BankAmerica Foundation was the second contributor to help establish the Microloan fund by giving \$15,000. The following year, Bank of America established a \$100,000 Micro/MBEWEBE program exclusively for NMI participants. Those who utilized this opportunity are now very successful in their businesses. In 1995, Bank of America matched various program grants with a grant for \$85,000. Recently, Bank of America committed \$15,000 for NMI operations.

Bank of America has also supported NMI through the participation of its employees. NMI opened a second branch in Las Vegas in 1995. Bank of America staff served as founding board members and were instrumental in the creation of that office. Other employees offered assistance to Nevada MicroEnterprise Initiative over the years.

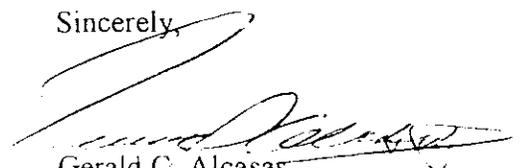
For the past two years, Joselyn Cousins, Community Development Department, serves as the President of the Board of Directors. Previously, she served on our Loan Review Committee. Her time and dedication to the organization has created many opportunities for our organization.

Ms. Cousins has helped to establish a referral system between Nevada MicroEnterprise Initiative and Bank of America. Funds have been set aside for individuals who Bank of America is unable to assist with their lending needs at that time. Those clients are then referred to NMI's training program to fine tune their business plan or idea and entrepreneurial skills. The goal is to have that client then return to Bank of America with business management skills.

As you can see, Bank of America has shown a real commitment to the community through its extensive support of the Nevada MicroEnterprise Initiative.

I estimate my presentation time to be 10 minutes. If you have any further questions please feel free to contact me at 116 East 7th Street, Ste. 3, Carson City, NV 89701 (702) 841-1420, (702) 841-2221 fax.

Sincerely,



Gerald C. Alcasas
Executive Director

**Statement of Stephen Acree,
Executive Director, City of St. Louis Community Development Agency
San Francisco Federal Reserve Hearing**

July 10, 1998

*Stephen Acree
Panel 28*

NationsBank

In 1997 NationsBank acquired Boatmen's Bank, which was the oldest and largest banking institution in St. Louis. Boatmen's was a leader in the community development field in St. Louis. They had a reputation for "pushing the envelope" for worthwhile projects. Certainly, the St. Louis community was concerned that this very proactive stance would be altered with NationsBank's merger with Boatmen's Bank.

In fact, NationsBank has assumed a tremendous leadership role in the community, particularly in Downtown. Not only has NationsBank fulfilled the commitments made by Boatmen's, but they have brought tremendous additional resources to the community.

In the year that NationsBank has been actively involved in St. Louis it has invested \$2.1 million in the St. Louis Equity Fund to provide equity to small, non-profit housing developers for the creation of low- and moderate-income housing. NationsBank has partnered with my agency in the following housing developments:

- Westminster Phase IV/McCormack House – a 100-unit supportive housing development for the elderly. NationsBank provided \$6.4 million in LIHTC equity and Affordable Housing Assistance Program contribution dollars.
- NationsBank has contributed \$100,000 to the day care center at the Murphy Park development, which is a leading edge mixed-income redevelopment of a large Public Housing site in St. Louis. NationsBank also helped raise \$2.4 million in equity for this project.

- NationsBank provided \$2.5 million in LIHTC equity for the Etzel Place Apartments Phase II, a 42-unit affordable housing development.
- NationsBank provided the construction loan and provided the equity through purchase of the tax credits for Parkview Gardens Phase II, a not-for-profit development of the Parkview Gardens Neighborhood Association, who originally began their efforts with Boatmen's Bank.

There are a number of very exciting projects that can be accomplished in St. Louis exclusively because of the additional financial resources and financing tools brought to the community by NationsBank:

- The NationsBank Small Business Investment Corporation made a \$500,000 equity investment in TLC Next Generation to help an African American businessman, Leroy Wright, to expand his business. Mr. Wright is the founder of Wright Cellular. With cellular phone sales nearing \$1 million annually, the NationsBank investment and \$1.6 million business loan helped him to acquire Next Generation to form TLC Next Generation. Mr. Wright's new firm is now the largest distributor of wireless communications products in the St. Louis metropolitan area.
- The NationsBank Community Development Corporation is undertaking the \$5.3 million acquisition and rehabilitation of an eight-story 60,000 s.f. warehouse building in our Downtown Loft District. The building is being converted to 26 loft apartments with a first floor art gallery and studio space. The Bank CDC will own the project long term in partnership with a local nonprofit, the Regional Housing and Community Development Alliance. NationsBank CDC invested cash equity and purchased the State and Federal LIHTC and Historic Rehab Tax Credits. NationsBank will provide the construction financing, a bridge loan, and permanent financing, as well. This project does not work financially as a mixed-income development without the NationsBank CDC'S ability to invest patient capital. NationsBank is essentially funding 100% of the debt and equity for this project, as well as taking a long term ownership position.

- NationsBank CDC is also pursuing the redevelopment of a 140,000 s.f. historic warehouse as 42 loft apartments, again in partnership with the Regional Housing and Community Development Alliance. This \$9 million project will commence in the third quarter of this year. In the short term, NationsBank has made a commitment to spend \$200,000 to replace the roof and stabilize the building.

Our partnership with NationsBank is helping us to create the mixed-income and vibrant residential presence in our Downtown that is absolutely critical to re-energize and spur our City's Downtown redevelopment efforts. Their projects and their commitment serve as a catalyst to encourage other corporations and institutions to invest in Downtown St. Louis.

- NationsBank has committed to invest \$100 million in Downtown St. Louis. As part of this commitment, the Bank advanced \$425,000 to the City to pay for our Downtown Planning Study that is being undertaken by EDAW. NationsBank was the first contribution and allowed the team to start the process.
- NationsBank made a \$2.5 million loan to the City to acquire the long-vacant Gateway Hotel as part of the City's effort to attract a team to build a state-of-the-art Convention Headquarters Hotel.
- The NationsBank CDC is considering taking a major role in the redevelopment of Cupples Station, a historically significant collection of industrial warehouse buildings in our Downtown, where Westin Hotels has recently announced plans to locate a new property.

On a neighborhood level, NationsBank made a commitment to invest \$100 million in low-moderate income communities for neighborhood projects such as mortgages, home improvement loans, small business lending, and small scale community development lending. The commitment was announced in June, 1997 and was met by the end of the year.

The NationsBank CDC is also active in two long-term, comprehensive neighborhood revitalization efforts -- Forest Park Southeast and Grand Rock.

- In Grand Rock, the CDC officers brought together the major stakeholders in the neighborhood and began a dialogue regarding the value of a master plan for the area. The group has embraced the concept and has been meeting regularly to move the process forward. NationsBank will pay for half the cost of the master planning process. Additionally, the CDC will partner with one or more of the stakeholders to develop single family and multi-family housing in the area once the plan is complete. Such a partnership provides the local groups with the financial backing and technical assistance to both build their organizational capacity and enable them to undertake much larger scale projects. The CDC's ability to invest patient capital over a sustained period of time will be critical to the successful implementation of the master plan.
- The Forest Park Southeast process follows much the same model, except that the neighborhood organizations and "people infrastructure" are more fully developed and collectively moving forward. NationsBank CDC will be involved in partnering with the community to build housing. The discussions to date have focused the CDC's efforts toward building at least 50 new single-family homes and a Make A Difference Center, if operational support can be identified. The CDC is prepared to invest equity and additional capital as the development progresses. Currently, the CDC is going to provide capital to and partner with the community organization to acquire and rehabilitate six buildings for homeownership. The project will be financed by the City, a Joint Community Development Grant from HUD that was received by Washington University, and cash equity from the NationsBank CDC.

The NationsBank CDC hired staff and became active in St. Louis in July, 1997. I was immediately impressed that NationsBank staffed its CDC with local professionals from the local not-for-profit and government sector, people whose careers have been dedicated to housing and community development – one a former Director of Neighborhood Housing Services in St. Louis, one a former Community Development Director in St. Louis County and another from the City of St. Louis Community Development staff.

All of the above activities were undertaken within the last year. These exceptional activities could not have been undertaken in any form without the unique tools and huge financial capacity of NationsBank.

Senator Barbara Boxer
Presented by Tunua Thrash

1/10/98

Panel 2,

On April 13, 1998, BankAmerica Corporation and NationsBank Corporation announced they would merge to create what promises to be the first truly national bank in the United States. The combined institution will have assets worth an estimated \$570 billion. The Chairman and CEO of BankAmerica, David Coulter, as well as the Chairman and CEO of NationsBank, Hugh McColl, have said the merged institutions will be good for their customers and for the communities these now separate institutions serve-- I hope so. Nevertheless, I would be remiss if I did not admit to having some concerns.

My concerns are threefold.

First, BankAmerica has been a leader in the area of community reinvestment. Not only are its community reinvestment activities unmatched, it has also been the leading voice, among its fellow bankers, espousing the virtues and benefits of community reinvestment. BankAmerica has made the point that its community reinvestment activities are not just good for the communities the bank serves, those activities have also been profitable for the bank.

While other banks, have often complained bitterly that the Community Reinvestment Act is unnecessary and burdensome. Mr. Coulter, quoting former BankAmerica CEO Dick Rosenberg, has said, "community reinvestment isn't just the right thing to do, its the smart thing to do in a dynamic and diverse marketplace that is being reshaped by powerful economic forces." Mr. Coulter went on to say that BankAmerica is firmly committed to providing capital to enhance the economic and social wealth of the communities they serve. BankAmerica has fulfilled this commitment.

NationsBank has pledged \$350 billion, over 10 years, towards community reinvestment and has committed to retaining BankAmerica's Community Development Bank. Community groups worry, however, this commitment may be somewhat hollow inasmuch as NationsBank has failed to provide any specifics as to how it intends to reach its community reinvestment pledge. Community groups note that the pledge's vagueness could enable NationsBank to make a variety of loans that, while technically considered community reinvestment, are not targeted to those truly small business customers who need them.

The \$350 billion pledge by NationsBank is extremely sizeable. I hope, in making this sizeable commitment, the bank will consider more fully addressing the

concerns expressed by community groups as relates to the specifics of their community reinvestment pledge. For example, how much of that \$350 billion will be specifically committed to California verses the commitment for North Carolina and other states in which the combined institution will operate? In addition, I would hope that NationsBank would publicly and firmly commit, like BankAmerica, to providing the necessary capital to enhance the economic and social wealth of all segments of the communities the combined institution will serve.

Second, I want to ensure that Californians are well-served by this combined institution. Will the combined institution distort any markets for customers? For instance, with such a huge market share, will the combined institution offer their customers competitive rates? Will the newly merged institution be as responsive and as flexible in meeting the needs of their customers?

I believe the merged institution should provide the community with more services, greater innovation, more choice and more competitive pricing. Similarly it is important to ensure the less affluent segments of the community are fully serviced. It is easy, no doubt, to forget small businesses and underserved communities when large one-stop-shopping financial institutions are created. I hope this is not the case in California.

Third, I am concerned that the headquarters of the combined institution will be in Charlotte, North Carolina. Unlike North Carolina, California is a very large state-- the largest in the nation-- with many diverse communities. NationsBank must be prepared to meet the needs of this growing and diverse population. How will the new institution succeed in understanding and meeting these needs with its headquarters in Charlotte, North Carolina? The answer, I hope, is that the combined institution will commit to keeping a significant and sizable number of BankAmerica's top executives in California-- particularly those executives who are engaged in community banking activities.

I want to note that I recently met with Mr. McColl and found him to be very sincere, forthcoming and personable. Mr. McColl, has promised to meet with me in California to discuss, in detail, the concerns I have raised. I look forward to our meeting and hope Mr. Coulter will be available to join us.

As a member of the Senate Committee on Banking, Housing and Urban Affairs, I am all too aware of the proliferation of mergers in the banking industry.

Indeed, prior to the announcement of the BankAmerica/ NationsBank merger, a number of California based financial institutions, including Wells Fargo and Home Savings, had announced and/or completed mergers. Notwithstanding the importance of each of those institutions to California, I believe BankAmerica's pending merger is different.

Here's why. BankAmerica is not only California's largest bank, but it is also the largest bank-- and probably the most powerful-- in the West. BankAmerica's headquarters, San Francisco, is the financial capital of the West. Moreover, and more important to Californians, BankAmerica has been an extremely responsible and responsive corporate citizen for all of California's communities. I want to make sure that we do not lose this responsiveness. It's too much to lose.



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The following are comments given by Mr. Chris Krehmeyer, Executive Director, on behalf of Ecumenical Housing regarding the proposed NationsBank/Bank of America merger:

Thank you for the opportunity to speak today on behalf of the proposed merger of NationsBank and Bank of America. Ecumenical Housing is the largest not-for-profit housing provider in St. Louis County, Missouri owning and operating almost 200 scattered site, single family rental homes. In addition, we provide an array of support services to all the families living in our homes, typically a single mother with three children. Through secure housing in good neighborhoods and the provision of educational, employment, money management and parenting skills we help our families along a continuum to economic independence and self sufficiency.

When NationsBank first entered our community, buying the largest banking institution and a friend of the not-for-profit sector, there was the fear that this huge, out of town monolith would not be the partner and leader that it's predecessor was. While the dialogue to the community was good the old Missouri adage of "Show Me" was very prevalent. I am extremely pleased to report that NationsBank has exceeded most of our expectations in being a partner in our work and has become a leader in better neighborhoods and the lives of the families living there. They have been proactive and aggressive at looking our local problems and helping us fix them. Their product experience in other markets has been invaluable to us. St. Louis has a reputation of being unwilling to try new things but NationsBank has shown us that community development problems can have many solutions.

NationsBank has taken a leadership role in the Much needed revitalization of our downtown area and has committed significant resources to the new Regional Neighborhood Support Collaborative which provides much needed operating resources for neighborhood based community development corporations. In addition, the bank has impressed us by hiring key staff from our community. Two of

"Do justice . . . love mercy . . . walk humbly with your God." Micah 6:8

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their leaders in the community investment/development division are the former Executive Director of our local Neighborhood Housing Services affiliate and the former Director of Community Development for St. Louis City and County. These two individuals bring a wealth of knowledge about our community to the bank staff. Further, these two individuals are well respected and accessible to the front line folks who toil everyday to better the lives of the people in their community.

Our experience with NationsBank has been very positive. I appears that as Ecumenical Housing, NationsBank believes in the adage that "doing good is good business". We strongly support the proposed merger and hope that our comments somewhat allay the fears of those who may oppose it. Thank you.