CANDO
Chicago Association of
Neighborhood Development Organizations

343 South Dearborn Street • Suite 910 • Chicago, Illinois 60604-3808 FAX (312) 939-7236 • (312) 939-7171

Testimony for Federal Reserve Board Hearing on Proposed First Chicago/NBD and BancOne Merger by Ted Wysocki, Executive Director, CANDO August 13, 1998

In 1977, over twenty years ago, I introduced a community lending resolution at that year's shareholders' meeting of the First National Bank of Chicago. The resolution, based on the bank's poor performance documented by the first year of Home Mortgage Disclosure Act data, was defeated by 98% of the shareholders. This exemplified the corporate arrogance that required Congress to pass the Community Reinvestment Act (CRA) that same year.

Now over twenty years and three First Chicago mergers later, we are here to discuss the need for continued regulatory vigilance and community advocacy on behalf of neighborhood reinvestment in an era of financial modernization and merger mania. I am also here to testify on the strength of bank partnerships that have grown as a result of CRA and are now providing access to affordable credit and financial services to revitalize local communities.

At the end of 1983, First National Bank of Chicago applied to acquire American National Bank as it's self-proclaimed intent to be the premier bank in the Midwest. I staffed those CRA negotiations which led at the time to the largest CRA lending agreement of $100 million over five years. This commitment was renewed in 1989 for another $225 million in lending. In 1990, a five-year evaluation of Chicago's lending programs concluded:

> "The fundamental test of the success of neighborhood lending programs – and of investment in general – is whether lenders, community groups and community-based development organizations can develop and *implement* loan programs *together* in partnership." *[emphasis added]*

From my years of experience, the key element to fostering and furthering partnerships is regular monitoring and reviewing of progress so that continued dialogue can lead to further product innovation and market penetration. The key for both sides is learning to deal.

One example of product development through working with First Chicago is the financing of mixed-use real estate. Chicago's neighborhoods are built around main streets with block after block of properties with apartments above storefronts. In 1983, no lender offered conventional financing for such properties. At the urging of CANDO, First Chicago was the first lender to offer twenty-year fully amortized mortgages for the purchase and rehab of mixed-use real estate.

In 1995, with the merger of First Chicago and NBD, this Neighborhood Lending Program was renegotiated. As part of a new commitment of $2 billion in community lending, First Chicago agreed to do a pilot program of 10% down for owner-occupied mixed-use buildings with less than ten units. Now as part of our recent agreement, they have made this program an on-going loan product and are willing to pilot a low-down payment mortgage for owner-occupant commercial real estate. This new commitment will promote a wide range of local ownership and extend investment opportunities to a whole other generation of businesses.

This community credit need is being addressed by the private market, because the bank was willing to sit down and jointly hammer out the design of this loan product. It has turned out to be good business for the bank and good reinvestment for the community. It is a clear example of the value of CRA agreements.

There are many others like investing in micro-lending programs. CANDO's *Self-Employment Loan Fund* uses below-market investments to provide capital for borrowers, who for a variety of collateral or credit history reasons are not yet conventionally bankable.

In the face of today's proposed merger, the Woodstock Institute conducted "market share" analysis and established aggressive goals for small business lending over the next six years, which will bring such lending in low- and moderate-income areas to parity with lending in middle and upper-income areas.

This is not just about fair lending; it's about revitalizing the economy of distressed neighborhoods. This is about building assets and creating jobs. This is about assuring that monetary policies benefit all Americans.

The purpose of my observations is to make this final point: the Federal Reserve Board should exercise its regulatory authority to assure that BancOne adopts the First Chicago/NBD approach to community reinvestment throughout its service area. The corporate arrogance of refusing to negotiate CRA agreements, whether in Indiana or Ohio in this case, or in the case of NationsBank's merger with Bank America, should be **unacceptable** as a matter of Federal Reserve Board policy.

I endorse the agreement that we have reached with First Chicago/NBD and I am pleased that BancOne is willing to honor it. But I am disappointed that BancOne is unwilling to engage themselves in designing similar agreements for their other markets.

As vice-chair of the Bank Regulation Committee of the Federal Reserve Board's Consumer Advisory Council, I challenge the Federal Reserve to **only consider conditional approvals** of this and other mega-mergers -- conditioned on *parity* in market share goals for *specific* geographical markets. Let the market work but use your regulatory authority to assure that it works in *every* market.

Woodstock Institute

Information packet

Chicago CRA Coalition – First Chicago/Banc One Community Reinvestment Plan

Includes:

- Statement on the proposed merger, 8/13/98 - Malcolm Bush, Woodstock Institute
- Chicago CRA Coalition press release
- Community Reinvestment Agreement between First Chicago/Banc One and the Chicago CRA Coalition

407 South Dearborn
Suite 550
Chicago, Illinois 60605
Phone 312/427-8070
Fax 312/427-4007
woodstck@wwa.com
http://www.nonprofit_net/woodstock/

Woodstock Institute

407 South Dearborn
Suite 550
Chicago, Illinois 60605
Phone 312/427-8070
Fax 312/427-4007
woodstck@wwa.com
http://www.nonprofit_net/woodstock/

Statement on the Proposed Merger of First Chicago NBD and Banc One

Malcolm Bush, President, Woodstock Institute

August 13, 1998
Federal Reserve Bank of Chicago

I am speaking on behalf of the Woodstock Institute, a nonprofit that promotes reinvestment and economic development in lower-income communities, and as a member of the Chicago CRA Coalition. I am also a director of the National Community Reinvestment Coalition.

The proposed merger of two large companies that would together constitute the largest bank in the Midwest raises serious concerns for residents of lower-income communities and the organizations that work with them. The Community Reinvestment Act, in its 21 year history, has been much more honored in the breach than in the observance, a fact that has contributed to the economic decline of huge areas of urban, small town, and rural America. In the last few years, however, because of a variety of pressures and opportunities the Act has produced very important improvements in home-lending to lower-income and minority borrowers and communities.

In Chicago, in many ways the home-town of community reinvestment activity, one of those pressures and opportunities has been the practice, dating from 1983, of community organizations requesting and persuading banks, small and large, to commit to significant community reinvestment goals for specific periods of time, and then monitoring the banks' progress toward those goals on a regular basis.

On the announcement of this proposed merger the Chicago CRA Coalition, which Woodstock Institute convenes, entered a dialogue with the bank to set new CRA commitments in the Chicago region for the new bank. We believe that, if implemented, the provisions of this CRA agreement will constitute a good CRA program for the new bank in the Chicago region by improving the bank's record in lending, investments, and services to the benefit of the region's lower-income communities. My colleagues from the Chicago CRA coalition on this panel will speak to some of the details of the agreement.

In my view the highlights of the agreement include the following items.

The bank committed to small business and home loan goals based on a measure of its size and market presence, namely a specific ratio of its market share in lower-income communities to its market share in other communities. These ratios to be achieved at stated rates from 1999 are 1.10 for home loans and 1.15 for small business loans.

The bank committed to open four full-service branches in lower-income neighborhoods. These neighborhoods are seriously underbranched on a per capita basis compared to other neighborhoods.

The bank committed to a high level feasibility study of an affordable retail banking account for lower-income households which currently do not have a banking relationship, with the goal of establishing such an account.

The CEOs of both banks personally assured the Coalition that the new bank will have a vigorous home mortgage operation in all its markets.

The agreement will be monitored, like other Chicago area CRA agreements in regular meetings.

Unfortunately Banc One has not negotiated similar agreements in its current markets, which leaves it without a detailed and adequate CRA plan. Absent such an agreement we do not understand how the Federal Reserve Board can evaluate whether the merged institution will meet the convenience and needs of its communities. We note that the recent spate of so-called mega commitments by such institutions as NationsBank, Bank America, Travelers and Citicorp raise precisely the same problem. In the case of both mergers more than half the dollar commitments were for products not targeted to lower-income communities, and the commitments were not broken down by market area nor established with reference to such concrete, objective measures as market share ratios.

The First Chicago/NBD agreement contains community reinvestment details that should be standard for all bank applications and the bank regulators should demand such details as a matter of course. It also contains, in our opinion, commitments that reflect the size of the bank and that will promote significant, safe and sound community reinvestment in the region's lower-income communities.

Chicago CRA Coalition

Chicago CRA Coalition
c/o Woodstock Institute
407 South Dearborn, Suite 550
Chicago, IL 60605
312/427-8070

JULY 13, 1998

FOR IMMEDIATE RELEASE

FOR MORE INFORMATION CONTACT: **Malcolm Bush**
Marva Williams
(312) 427-8070

Chicago CRA Coalition Reaches Major Community Reinvestment Agreement with First Chicago/ Banc One

Chicago area communities will get $4.1 billion in housing and small business lending over the next six years as a result of an agreement announced today between First Chicago and a coalition of community groups. That figure includes a 40 percent increase in home and small business loans. The numbers are based on the standard that the bank's efforts in lower-income communities should match and even exceed its efforts in middle- and upper-income communities.

The agreement between the bank and the Chicago CRA Coalition, representing over 100 groups will mean almost $700 million a year in loans to Chicago-area low- and moderate income communities noted Malcolm Bush, President of the Woodstock Institute which convened the coalition. "This agreement is especially good news for small business people in lower-income communities, and anyone who cares about the economic future of our region," said Ted Wysocki Executive Director of the Chicago Association of Community Development Organizations (CANDO). "The agreement represents significant increases in home-mortgage lending and in multi-family lending which is critical for lower-income families who face housing crisis of enormous proportions" commented Kevin Jackson, executive director of the Chicago Rehab Network.

The agreement comes as merger arrangements proceed between Chicago's largest bank and Banc One of Columbus, Ohio. The federal Community Reinvestment Act (CRA) requires banks to serve low- and moderate-income communities, and bank regulators review CRA achievements prior to agreeing to a merger. "This agreement is different from other recent CRA commitments because the dollar goals are all dedicated to lower-income households and communities, because the agreement has a precise breakdown of the total dollar amounts, and because it has been generated by community leaders," said Bush.

The agreement includes:

* Increasing home loans by 19 percent in the first two years and by 40 percent by year five (cumulative total of 36,000 loans). Loan goals are broken down by home purchase, refinance, home improvement and multi-family loans.

-more-

* Increasing small business loans by 13 percent in first two years and by 41 percent by year six (cumulative total of 5,200 loans). Loans to businesses with less than $1 million in sales will increase by 34 percent in the first two years and by 68 percent by year six.

* Reversing Bank One's decision to downgrade its mortgage company activities. The new Company will offer its full range of mortgage products in every market.

* Opening four full service bank branches (free-standing branches or Dominick branches) in four years in lower-income communities.

* Increasing the bank's downpayment assistance program from $100,000 to $900,000 to help lower-income households purchase their first home.

* Establishing, for the first time, a floor on contributions to community development groups and building in annual yearly increases.

Verne Istock, the CEO of First Chicago/NBD, and Chairperson designate of the new bank, has also committed in writing to a high-level feasibility study with the goal of establishing an "access" account for people who currently do not use or do not qualify for a regular checking account. Istock's counterpart from Banc One, John McCoy, who will become CEO of the new bank, has personally pledged to honor this agreement. This agreement also honors the spirit of close relationships between First Chicago and Chicago area community groups that date to the signing of the first CRA agreement for $100 million with First Chicago in 1984. The coalition hopes that this agreement will encourage banks in other cities to work with community organizations on similarly targeted CRA goals, said Marva Williams, Senior Project Director at Woodstock Institute.

The Chicago CRA coalition, which is convened by the Woodstock Institute, is a coalition of over 100 organizations promoting community reinvestment throughout the Chicago metro area.

The Woodstock Institute, now in its 25th year, promotes access to capital and credit and encourages economic development in lower-income communities through applied research and public education.

Other Contacts:

Home Lending: Joyce Probst, Chicago Rehab Network, (312) 663-3936
Small Business Lending and Economic Development: Ted Wysocki, Chicago Association of Neighborhood Development Organizations, (312) 939-7171; Tony Hernandez, Greater North Pulaski CDC, (773) 384-7074.
Bank Services: Esperanza Caraballo Latinos United Community Housing Association, (773) 276-5338; Dory Rand, Poverty Law Project, (312) 263-3830.
Investments: Calvin Holmes, Chicago Community Loan Fund, (312) 922-1350
Persons with Disabilities: Karen Tamley, Access Living of Metropolitan Chicago, (312) 216-5900
Cook County: Yevette Newton, Cook County Department of Economic Development (312) 795-8980.
Community Organizing: Bob Vandrasek, South Austin Coalition Community Council, (773) 287-4556

#####

Chicago CRA
Coalition

August 6, 1998

Verne G. Istock
Chairman, President and CEO
Chicago NBD Corporation
One First National Plaza
Chicago, IL 60670-4000

Dear Verne:

On behalf of the Chicago CRA Coalition, we endorse the attached six-year reinvestment agreement that will be implemented upon the merger of First Chicago NBD and Banc One. We are pleased with the goals developed as a result of these negotiations, which will greatly enhance lending, services and investments in lower-income and minority communities in the Chicago region. In particular, we are pleased to note that mortgage lending activities will be maintained. The negotiations were a model of how large banks should relate to community development organizations, and we regret that Banc One has not conducted similar conversations in its current markets.

Thank you for this opportunity. We look forward to working with you.

Sincerely,

Chicago CRA Steering Committee:

Malcolm A. Bush
Malcolm Bush, Woodstock Institute

Tony Hernandez, Greater North Pulaski DC

Joyce Probst
Joyce Probst, Rehab Network

Ted Wysocki
Ted Wysocki, CANDO

Esperanza Caraballo
Esperanza Caraballo, LUCHA

Yevette Newton
Yevette Newton, CEDA

Dory Rand
Dory Rand, Poverty Law Project of the National Clearinghouse for Legal Services

Karen Tamley
Karen Tamley, Access Living

FIRST
CHICAGO
NBD
CORPORATION

Mail Suite 0554
One First National Plaza
Chicago, Illinois 60670-0554
Telephone (312) 732-4000

VERNE G. ISTOCK
Chairman, President and
Chief Executive Officer

July 29, 1998

Mr. Malcolm Bush
The Chicago CRA Coalition
c/o The Woodstock Institute
407 South Dearborn
Suite # 550
Chicago, IL 60605

Dear Malcolm:

I am pleased to transmit a copy of the community reinvestment programs and activities which we plan to implement following the completion of the merger between First Chicago NBD Corporation and Banc One Corporation.

The discussions we have had over the past three months have been both challenging and enlightening to the team from First Chicago NBD and Banc One. We are proud of the result, and hope the Coalition members are as pleased as we are. I think we both have learned from each other during the discussions, and will be stronger partners moving forward as a result of the time we have spent together.

John McCoy and I are looking forward to building a new corporation, and helping to strengthen all the communities in which we operate. We look forward to working with you.

Cordially,

Vern

CRA Coalition Goals — *First Chicago-Banc One Plan*

Housing Task Force Issues

Single Family Mortgage Lending

CRA Coalition Goals	First Chicago-Banc One Plan
Market Share Increase bank lending to low- and moderate-income ("LMI") people and areas, including expansion into un- and underserved markets.	• The Bank concurs with a goal of reaching a cumulative metropolitan six county area total of 35,879 LMI residential HMDA loans by the end of the year 2004 (attachment breaks down totals by year and product.) • Progress will be measured by number of loans, percentage increase and market share. • Generally, lending in low- and moderate-income areas should be commensurate with lending increases to low-and moderate-income people over all. (Sub-prime lending should not be included in these increases.) • The bank will work with community organizations to determine underserved markets, and ways to penetrate these markets. • The bank will participate in the design and development of an analysis of credit and service needs in LMI communities, and will contribute to its implementation.
Credit Scoring Ensure that increased use of credit scoring does not become a barrier to accessing credit for people with non-traditional or problematic credit histories.	• Applicants with marginal credit scores will be offered another loan product, and denied applicants will be given information on homeownership counseling programs. • The bank will continue second reviews of all low/mod applications, as well as second reviews of all minority loans which are received. • The bank's Community Outreach and Education Division (COED) will work with the Credit Counseling Services of Chicago on credit repair workshops.
Other Reduce inappropriate subprime lending	• After the merger, the bank will conduct credit analysis on all subprime applicants and refer them to appropriate loan product.
Increase Downpayment Assistance ("DPA") Pool	• The bank will increase the DPA pilot to $150,000/yr. for 6 years, with $1,500 per borrower. 1/3 of these funds will be set aside for borrowers below 60% of median income, with the remainder for those at 80%; areas will include EZ, City EC, and all low/mod tracts in South Suburban Cook County. • Within the Downpayment assistance program, $2,500 will be offered for people with disabilities, with no geographic limits on the home purchase, and income eligibility extended up to 100% of median. • The geography and subsidy amounts are open to annual adjustment at the suggestion of the bank or the Neighborhood Lending Review Board.

Multifamily Lending

CRA Coalition Goals	First Chicago-Banc One Plan
Lending Renew and increase the Neighborhood Lending Program	• Targets for multifamily lending are found in attachment. • The activities of the Neighborhood Lending Program will be continued. • 1998 Goal - $65 million in loans closed, 1999 goal - 7.5% increase to $70 million.
Encourage mixed-income development	• The bank concurs with the importance of mixed-income development including rental and for-sale units, and will encourage proposals for these.
Housing Policy Partner with City of Chicago to preserve affordable housing stock and expand home ownership opportunities	• The bank will continue to partner with the City of Chicago and community organizations in projects that support the goals of the new 5-year Department of Housing Affordable Housing Plan. • They will partner with the Chicago Rehab Network to identify methods to finance low income housing as described in the City's 5 Year Plan, such as: family housing prioritization; preservation; Section 8 & public housing; and, capacity of non-profits.

CRA Coalition Goals	*First Chicago-Banc One Plan*

Economic Development Task Force Issues

Small Business

Lending Increase bank lending to small businesses in low- and moderate-income areas.	• The bank concurs with a goal of reaching a cumulative metropolitan six county area total of 5,190 LMI small business loans by the end of the year 2004 (attachment breaks out totals by year and loans to very small businesses.) • The bank will continue to report small business lending to Neighborhood Review Board. • The bank agrees to approach DCCA (with CRA Coalition members) for higher matching levels in order to market CAP to small firms in minority communities, if and where necessary. • The bank will increase the number of affordable lines of credit for working capital that address customers rejected on the basis of current underwriting criteria. • The bank introduced a small business credit card in the fall of 1997, and will monitor the progress of this product. The bank will increase the marketing of this product in LMI communities. • For interested community organizations, the bank will partner on credit repair programs. • The bank is investigating the listing of a technical assistance organization name and contact on all rejection letters.
Technical Assistance Increase Technical Assistance ("T.A.") to low- and moderate-income commercial areas in under-served neighborhoods	• The bank will work with community organizations and an appropriate T.A. organization toward increasing T.A. , esp. accounting, bookkeeping, computer systems in LMI communities. • The bank will increase its funding of such activities by 10% for each of the next two years, and agree to evaluate results regularly.
More flexible underwriting	• The bank will extend the owner-occupied mixed-use pilot program established in 1996, and will explore expanding it to include commercial industrial properties contingent upon the continued performance of the portfolio.

Services Task Force Issues

Establish and market lifeline accounts	• The bank will convene a group to study the feasibility of offering an Access Account, with the goal of implementing this account. The study will be completed by November 30, 1998. (Attached letter from Chairman Istock describes more on this.) • The bank will monitor and review EFT guidelines when published this summer for the development of an EFT account. • The bank will increase marketing of lifeline accounts to unbanked individuals including EFT and/or EBT recipients. The bank will ensure that this issue is discussed at the Chicago Clearinghouse. • The bank will increase marketing of these accounts through various means and will consider contracts or grants with community organizations.
Increase financial literacy training	• The bank will allocate $50,000/year for financial literacy training through internal staff resources, workshops, publication of marketing and other materials, and /or grants to qualified organizations. • This program will be evaluated every two years, with consideration of renewal for another two years at the same level.

Branch Network

Increase the number of full-service bank branches in under-served communities	• The bank will open two new Dominick's full-service supermarket branches in low/mod areas in 1998 and 1999. • The bank will open, in addition, two new full-service branches in low/mod areas in the next four years.

CRA Coalition Goals	*First Chicago-Banc One Plan*

Investments and Grants Issues

Community Development Investments

Establish a base for yearly increases of community development investments and grants, including bank CDC and equity investments in CDFIs.	• The bank will establish the combined 1998 totals of Banc One and First Chicago NBD as a baseline year for community development grants for the new corporation, and will increase such grants in the Chicago area by 5% annually for the next two years. The program will then be evaluated, with the goal of extending these increases for an additional two years. • The bank will set a goal of $16 million in funding commitments of the Bank CDC for 1998. • The bank will provide $500,000 over three years in long-term, below market equity equivalent investments or similar instruments, at which time the program will be evaluated, with consideration for renewal for an additional three years at the same level. • The bank will work with Chicago CDFIs on the development of credit enhancement/letter of credit pools.

Housing Education and Counseling

- The bank will continue to support homeownership education and counseling programs, particularly in low- and moderate-income areas.
- If there is demand for education on reverse equity mortgages, the bank will work with organizations on its development.

Other Issues

Evaluation/Monitoring:	• The bank will continue the quarterly meetings of the Neighborhood Lending Review Board
Vendor procurement:	• The bank will maintain its Supplier Diversity Program.

CRA Coalition Goals	First Chicago-Banc One Plan

Additional Issues of Agreement

Housing Task Force Issues

Mortgages for People with Disabilities	• The Community Pride Loan will be aggressively marketed to people with disabilities. • The bank will work with community organizations serving people with disabilities to develop and market products or programs for people with disabilities.
Single Family	• The bank will explore models of purchase-rehab including Fannie Mae HomeStyle product.. • The bank will continue to invest in the NHS Family Housing Fund.
Multi-Family Pilot	• The bank will continue the multi-family pilot program, and review changes to make the program more effective.
Technical Assistance	• The bank will conduct semi-annual packager training, and for community organizations that are interested in co-hosting, will continue real estate development and investment training programs.

Economic Development Task Force Issues

Credit Scoring	• The bank will continue to review rejected loans for inclusion in the CAP or SBA programs, and with community organizations, will undertake a study of the ability of micro lending organizations to take on larger loans, and their ability to offer lines of credit.
Neighborhood Lending Program	• The bank will retain qualified staff. • The Neighborhood Lending Program and CDC will continue to target community development deals: grocery stores, child care, health care
Marketing	• The bank will expand efforts to increase marketing of mixed-use and commercial real estate products in low-mod areas, esp to brokers, particularly where CDC and market opportunities exist.
Technical Assistance	• The bank will sponsor workshops, based on demand for ownership/management classes.

Issues for later discussion

Housing Task Force Issues

CRA Coalition Goals	*Current Bank Response*
Cash Flow Pilot Program • 500 loans in two years Program institutionalized if performance acceptable. • Eligible borrowers: high ratios with no significant change in housing costs. • Also referred to housing counseling agency once found eligible. • Underwrite based on past housing payments adjusting for utility costs and taxes. • 2-4 units building: apply rental income minus standard vacancy rate directly to mortgage payment.. • Coalition will work with Bank to identify a secondary market purchaser of loans.	• The bank will continue working with borrowers who have high ratios, but are already paying a high percentage of income on housing costs in rent payments. • The bank will distribute written information on loan counseling programs. • The bank will continue flexible underwriting on these applications. • The bank will continue to work with FNMAE and other secondary market players for the sale of these loans.
Mortgages for People with Disabilities • Purchase and purchase/rehab pilot project, 2 years, targeting low- and moderate-income people with disabilities; 20 loans in 1st year, 30 loans in 2nd year. • Use cash flow product described above or other flexible underwriting. • Explore appraisal gap subsidy with DOH or other sources. • Explore interest rate buydown or other subsidy with DOH or other sources. • Explore rehab of mixed use commercial property into accessible residential units	• The bank will provide targeted downpayment assistance (see main agreement). • The bank will market the Community Pride Loan (see above).

Support CRA and HMDA extensions

Economic Development Task Force Issues

Credit Scoring

Monitor applicants turned down due to credit scoring

Lending

Help bond neighborhood-appropriate TIFs

Encourage bank lending up to regulatory limits in targeted communities.

Services Task Force Issues

IDA

- Provide matching funds for demonstration program;
- Tie IDA with recruitment of new Bank customers

Residential Lending Six Year Goals								
First Chicago NBD Crop. - Bank One, Combined (including mortgage companies) (a)								
Increases in LMI Lending and Cumulative Lending Volumes to Reach LMI - MUI Lending Goals								
Metropolitan Six County Area (b)								
		YEARS						
	1996	1999	2000	2001	2002	2003	2004	CUMULATIVE
Home Purchase								
Number of LMI home purchase loans in 1996	1,263							
Required number of LMI home purchase loans to reach LMI- MUI goal		1,450	1,540	1,618	1,695	1,770	1,770	9,843
Required increase in number of LMI over 1996 level		187	277	355	432	507	507	2,265
Required percent increase over 1996 level		15%	22%	28%	34%	40%	40%	
Home Improvement								
Number of LMI home improvement loans in 1996	1,204							
Required number of LMI home improvement to reach LMI- MUI goal		1,250	1,300	1,365	1,440	1,500	1500	8,355
Required increase in number of LMI loans over 1996 level		46	96	161	236	296	296	1,131
Required percent increase over 1996 level		4%	8%	13%	20%	25%	25%	
Refinance (1 - 4 units)								
Number of LMI home refinance loans in 1996	2,090							
Required number of LMI home refinance loans to reach LMI- MUI goal		2,575	2,700	2,825	3,000	3,135	3135	17,370
Required increase in number of LMI loans over 1996 level		485	610	735	910	1,045	1,045	4,830
Required percent increase over 1996 level		23%	29%	35%	44%	50%	50%	
Multi Family								
Number of LMI** multi family loans in 1996	45							
Required number of LMI multi family loans to reach LMI- MUI goal		46	48	51	54	56	56	311
Required increase in number of LMI loans over 1996 level		1	3	6	9	11	11	41
Required percent increase over 1996 level		2%	7%	13%	20%	24%	24%	
Total Residential (HMDA only)								
Number of LMI loans in 1996	4,602							
Required number of LMI loans to reach LMI- MUI goal		5,321	5,588	5,859	6,189	6,461	6,461	35,879
Required increase in number of LMI loans over 1996 level		719	986	1,257	1,587	1,859	1,859	8,267
Required percent increase over 1996 level		16%	21%	27%	34%	40%	40%	
(a) ANB, FNBC, FCNBD Mtg. Co., Bank One Chicago, N.A. and Bank One Mortgage Co. combined.								
(b) Cook, DuPage, Kane, Lake, McHenry and Will Counties								

Small Business Lending Six Year Goals

First Chicago NBD Corp. - Bank One, Combined (a)

Increases in LMI Lending and Cumulative Lending Volumes to Reach LMI - MUI Lending Goals

Metropolitan Six County Area (b)

	YEARS							
	1996	1999	2000	2001	2002	2003	2004	CUMULATIVE
All Small Business Loans								
Number of LMI loans in 1996	688							
Required number of LMI loans to reach LMI- MUI goal		760	800	845	885	930	970	5,190
Required increase in number of LMI loans over 1996 level		72	112	157	197	242	282	1,062
Required percent increase over 1996 level		10%	16%	23%	29%	35%	41%	
Loans to Very Small Businessess (<=$1,000,000 in sales)								
Number of LMI loans to very small businesses in 1996	196							
Required number of LMI loans to reach LMI- MUI goal		255	270	285	300	315	330	1,755
Required increase in number of LMI loans over 1996 level		59	74	89	104	119	134	579
Required percent increase over 1996 level		30%	38%	45%	53%	61%	68%	

(a) ANB, FNBC, Bank One Chicago, N.A., and Bank One Dayton, N.A.

(b) Cook, DuPage, Kane, Lake, McHenry and Will Counties

FIRST
CHICAGO
NBD
CORPORATION

Mail Suite 0554
One First National Plaza
Chicago, Illinois 60670-0554
Telephone: (312) 732-4000

Verne G. Istock
Chairman, President and
Chief Executive Officer

July 3, 1998

Mr. Malcolm Bush
Chicago CRA Coalition
c/o The Woodstock Institute
407 South Dearborn
Suite 550
Chicago, IL 60605

Dear Malcolm,

I have been reflecting on our discussion last week related to the issue of what we might call an "access account" for individuals with limited or poor credit histories, or limited experience in dealing with banks.

It is clear to me that it would be beneficial to the community to provide an alternative to currency exchanges, and to encourage people to establish relationships with banks. Because of the importance of this issue, I have decided to assign the task to senior staff in our retail deposit product, branch delivery and legal departments to undertake a thorough feasibility study of establishing a pilot roll-out of an "access account", and to report directly to me on the findings.

I am aware that the Chicago CRA Coalition has requested that we commit to a product, and I wanted you to know why we cannot do that at this time with the information we have available. There are bank regulations (Regs B, CC and E, for instance) which would impact our ability to offer a product which is both reasonably priced and meets a substantial number of the policy goals which we would like to achieve. How to place certain individuals - and not others - into this account is a concern of mine, as are the requirements for monthly statements and the timely release of uncleared deposits, which is a major cause of fraud. I do not think these concerns are insurmountable, but they do illustrate why the issue needs more definition before we may be able to institute this product.

Your input on these issues, as well as examples of other successful models, would be very helpful to us in this endeavor. I have asked Mary Decker and Ed Jacob to coordinate your involvement in this process, which I have asked to begin within thirty days.

Please thank the Coalition again for all their insights and specifically for bringing this issue to my attention.

Cordially,

Verne

Chicago CRA Coalition

Background and Summary for Negotiations with First Chicago/Banc One

The Chicago CRA Coalition is an association of community organizations and other non-profits that use CRA to promote community development investments, services and lending by financial institution in minority and low- and moderate-income communities and to low- and moderate-income persons.

Term of agreement:
Six years, 1999-2004 inclusive.

Major Goals of the CRA Coalition:

1. To increase First Chicago/Banc One residential and small business lending to low- and moderate income persons and in low-moderate income and minority communities in the Chicago MSA .
2. To provide adequate financial services (branch networks, ATMs, life-line accounts) to low- and moderate income persons and in low- and moderate-income and minority communities.
3. To increase grants and investments in community development organizations and other non-profits relative to the increase in lending of the new bank.
4. To decrease predatory residential, consumer and small business lending.
5. To increase small business technical assistance and consumer credit counseling/repair services.

Definitions

Low-income: areas or people with incomes of 50% of the median or less.
Moderate-income: areas or people with incomes of 80% of the median or less.
Small businesses: loans of $1million or less.
Very small businesses: businesses with annual sales of $1 million or less.
Market share ratio: a measure of bank lending performance where the lender's share of business to low- and moderate-income areas/people is compared to its share of business to middle- and upper-income areas/people. A ratio of less than 1.0 means that the lender serves low- and moderate-income areas at a lower rate than it serves middle- and upper-income areas.

CHICAGO REHAB NETWORK
53 WEST JA
CHICAGO, ILL
TELEP
312.66
FACSI
312.66

Statement by Kevin Jackson, Chicago Rehab Network to Federal Reserve Bank of Chicago on First Chicago/Banc One Merger

August 13, 1998

Good morning, Ms. Smith. My name is Kevin Jackson, I am the Executive Director of the Chicago Rehab Network, a 20 year old coalition of 43 non-profit housing development organizations in Chicago. We are a member of the Steering Committee of the CRA Coalition and the Chair of the Housing Taskforce.

Financial institution's responsiveness to individuals and families in local neighborhoods is at the heart of the importance of the Community Reinvestment Act. Recognition of this is clear from the proceedings today. Public involvement in the decisions that impact communities, regions and the country is fundamental to the democratic process and ultimately, despite its difficulties a good thing. We congratulate the Federal Reserve Bank for calling this hearing and acknowledge the importance of the people assembled to participate. We also congratulate ACORN on helping to create the momentum that resulted in this hearing. And finally we congratulate First Chicago NBD on demonstrating the utility and possibility of CRA agreements that mean good business for the institution and communities.

The Chicago Rehab Network has a long history with the First National Bank of Chicago. In 1984, when First Chicago acquired American National Bank, we were part of the coalition that negotiated the first Neighborhood Lending Agreement. Since then we have sat on the quarterly Review Board, packaged hundreds of multi-family loans, and provided detailed input on community credit needs. When First Chicago merged with NBD three years ago we were part of the CRA Coalition that negotiated a detailed CRA Agreement.

As I stated in my opening, CRA is vital. The process that led to our present CRA Agreement occurred because CRA strengthens our government's mediating role between the private sector and the common good. The CRA agreement reached by the CRA Coalition in the proposed merger of First Chicago NBD and Banc One is a model for CRA agreements in both it's process and substance. After the merger was announced, the CRA Coalition moved quickly to hold a public meeting and then had Taskforce meetings to gather substantive input from community organizations throughout the region. The Housing Taskforce met three times to develop the initial set of negotiation items. We then met many times with First Chicago NBD and Banc One staff from the highest levels on down.

For the first time in CRA negotiations we were able to use a market share analysis to develop mortgage lending targets. As a result, over the next six years First Chicago NBD has committed to increasing their residential lending by more than 8,200 loans over current lending levels. In 1995 First Chicago established a $100,000 Downpayment Pool for homebuyers in Chicago's Empowerment Zones, with this Agreement the Pool has been increased to $900,000 and extended to more low and moderate income areas.

In discussing credit needs with organizations in Chicago there was a sense that, particularly in this time of megamergers and predatory lending, simply establishing lending targets is barely adequate. Without a thorough analysis of the credit needs of low and moderate income communities and individuals on which to base lending targets, there will continue to be unmet needs and borrowers who are forced to get inferior, high cost credit products. First Chicago NBD has committed to participate in the design and development of an analysis of credit and service needs in low and moderate income communities and to contribute to its implementation. They further agreed to work with CRN to expand the impact of the City of Chicago Department of Housing's second 5 year Affordable Housing Plan approved by the City Council in July.

We were particularly concerned to read in the merger application that Banc One had discontinued it's mortgage lending business except for the convenience of its customers and its CRA division. We believe that mortgage lending at all income levels is the foundation of community development and a bank's investment in a community. After discussion with both bank's CEOs and many of the senior staff, the bank announced that, through their best practices evaluation of the bank's business, they would resume full mortgage lending throughout the Banc One system. This is one of two system-wide commitment we received from Banc One, the second is that the bank will conduct a credit analysis on all applicants to the subprime lending unit and refer them to appropriate loan products.

The process I have described created a CRA Agreement that is responsive to the service and credit needs of low and moderate income communities, businesses and households in Chicago. With this Agreement we have a solid foundation to build on for the next six years. The same type of commitment must be made to low and moderate income people and communities throughout the Banc One system.

In the end the communities in which the members of the Chicago Rehab Network operate are not unlike communities throughout this country, struggling to build better neighborhoods through affordable housing and economic development, and fighting the growing tide of economic disparity. Our mission at CRN, to promote community development without displacement in our communities, requires us to stand in solidarity with communities across this country in their relationship to financial institutions. We believe that First Chicago NBD's leadership here should be replicated throughout the country and we call on the Federal Reserve Board to ensure that the same type of commitment is made to all low and moderate income people.

5

FEDERAL RESERVE BANK OF CHICAGO

THURSDAY, AUGUST 13, 1998

"TESTIMONY OF MARK MCDANIEL REGARDING PROPOSED MERGER OF BANC ONE CORPORATION COLUMBIA, OHIO AND FIRST CHICAGO/NBD CORPORATION, CHICAGO, ILLINOIS"

6

Good Morning. I am Mark McDaniel and I am the President of the Michigan Capital Fund for Housing. The Capital Fund is a non profit housing corporation that was founded in 1993 for the purpose of raising and providing investment equity to create affordable housing in Michigan. The Funds mission in providing equity is to invest in projects that meet at least one of the following criteria:

1. Locate in a distressed community which includes rural areas
2. Smaller size projects
3. Non profit involvement as sponsors
4. Serving special needs populations

With that mission the Fund has raised and invested over 80 million of equity since 1993 creating over 2,000 units of affordable housing. Through our relationship with the Enterprise Social Investment Corporation, the Enterprise Foundation, and our financial institution investors the Fund now offers a multitude of financial resources to the development community in Michigan. This includes permanent debt financing, construction lending, technical assistance, predevelopment loans and grants, and charitable activities contributions. As a result of our growth and structure we have come to understand the banking industry intimately.

I am here today to tell you very simply that the merger between Banc One and First Chicago/NBD is the best news we've had in a long time. I know this is good news because this is the first time that a merger has gotten the bankers on our board grumbling. This is indicative that Banc One will be very competitive and push the other banks to become more aggressive and innovative than they're use to; in my view, that is what Banc One is bringing to Michigan and that is good.

Based on my 21 years of experience in planning, housing development, and community development, I am convinced that Banc One has a social and financial commitment to revitalizing and supporting community investment and development throughout its market area. This is true in our case even when they weren't in the Michigan market. In the formative stages of the Fund, Joe Hagan the President of the Banc One CDC, was advising us on structuring the Fund and selecting board members. They have provided me with input whenever I've been faced with complex issues which I have found very unusual when compared with other banks.

Banc One has invested $125 million is several national equity funds managed by Enterprise. They have invested $20 million in funds managed by the Ohio Capital Corporation for Housing. In addition Banc One is providing bridge financing to Ohio Capital. Their commitment to the Illinois, Chicago, Cleveland, Delaware, Texas, and Milwaukee Equity Fund has been similar.

There are some who will say, "so what". Tell that to the single mother living in a transitional housing development who, without Banc One's and others investments, would still be suffering the beatings of an abusive boyfriend or be out on the street with no where to go. The same mother who has got her life together because of this housing opportunity and is now ready to move into a Habitat for Humanity home. Tell that to the senior citizen in Cleveland who was living as a hostage in her home in a crime ridden neighborhood, who as a result of a Banc One investment, was able to move into a new safe and secure senior community. She now has a quality of life in her golden years that she never thought she would have. And finally, tell that to the young couple with little ones who where forced to live in a slumlord owned house with no security, broken plumbing and windows, and lack of adequate heat who, with the help of Banc One's investment in a national fund, was able to find safe and decent housing to raise their family in. There are thousands of stories like this.

NBD is represented on our Board of Directors and has as compared to other financial institutions in Michigan, been a significant but smaller player. We appreciate the support and effort they have put into the Fund. But we see this merger moving them to the forefront of community investment in Michigan. The first signs of this came within two weeks of the announced merger with a series of inquiries and meetings with Banc One personnel and the Fund to discuss how Banc One can provide their resources through the Fund. We are already working with Banc One Capital Corporation on a construction loan and co-investment for a senior citizen development in Adrian, Michigan. There has never been a single bank merger in Michigan where the lead bank has taken the time or made the effort to discuss with the Fund or others how they can best get involved in community development in the state. Banc One is the first to do this and we appreciate that and believe it is the indicative of how Banc One will be committed to working in Michigan.

In closing the Michigan Capital Fund is excited and supportive of the proposed merger between Banc One and First Chicago/NBD. We are looking forward to Banc One being one of our major investors and supporters. This merger will not only be good for the Fund but most importantly for the less fortunate residents in Michigan who need affordable housing.

Thank you for your time and I look forward to this great marriage to be consummated soon.

Statement regarding the proposed merger of Banc One and First Chicago NBD by Dory Rand, Staff Attorney

Poverty Law Project of the National Clearinghouse for Legal Services

August 13, 1998 public hearing
at the Federal Reserve Bank of Chicago

The National Clearinghouse for Legal Services is a nonprofit organization based in Chicago that represents tens of thousands of low-income persons regarding welfare and housing policy issues through its Poverty Law Project and provides support to the poverty law community and others through its web site, print publications, library, and training and information services.

As a staff attorney with the Poverty Law Project and editor of its monthly newsletter, ILLINOIS WELFARE NEWS, I have monitored the development and implementation of new programs for electronic delivery of government benefits, including EBT and EFT. Illinois Link is the Illinois Electronic Benefit Transfer program for delivery of cash and food benefits to low-income people. EFT is the federal Electronic Funds Transfer program for delivery of federal payments such as Social Security, Supplemental Security Income (SSI), Veterans' benefits and Railroad Retirement benefits.

These EBT and EFT programs produce tremendous cost savings for the federal and state governments and help to reduce misuse of benefits, while providing some security and convenience advantages to recipients. The advantages of electronic delivery of benefits could be multiplied if recipients were to have their cash benefits directly deposited into bank accounts. For example,

- Funds deposited in a bank account enjoy the federal consumer protections of Regulation E (which limits liability for losses from fraudulent use to $50 in most cases); EBT funds have no such protection.
- Funds deposited in a bank account are insured by the Federal Deposit Insurance Corporation (FDIC), a U.S. government agency; EBT funds have no such protection.

- Persons who deposit their government benefits or employment checks in a checking account can use checks to pay their bills; persons without checking accounts often pay high fees for money orders.
- Persons with bank accounts can use banks as references for landlords, telephone companies, and utilities companies; persons without bank accounts cannot use banks as references.
- Persons who deposit their money in interest-bearing accounts can increase their assets.
- Persons who establish a good relationship with a bank may later build on that relationship when requesting a home mortgage, a car loan, a small business loan, or investment in their communities.

Despite the many advantages of using bank accounts, most state welfare recipients and SSI recipients, as well as many working poor individuals who do not receive public benefits, have no bank accounts. Instead, they continue to rely on costly check cashers to handle their cash transactions. And they have no place to accumulate savings for education, a down payment on a home, or a car.

There are a number of reasons why many low-income individuals do not have bank accounts, including the lack of bank branches in low-income communities, the lack of free or low-cost accounts, and the lack of financial literacy in many communities. Bank policies requiring screening of applicants' credit histories further limit access to bank accounts.

Banks can and should play a major role in helping to address these problems. Banks must expand access to mainstream financial services by

- ➢ establishing more full-service branches and ATMs in underserved low-income communities;
- ➢ conducting and funding financial literacy and credit counseling programs; and
- ➢ developing and marketing free and low-cost checking and savings accounts that are not subject to credit screening.

To that end, I participated as a member of the Chicago CRA Coalition Steering Committee in negotiations that lead to the recent CRA agreement with First Chicago NBD and Banc One. I am particularly pleased that the banks agreed to:

1. open at least four new bank branches in low- and moderate-income communities;
2. allocate $50,000 per year to conduct and/or fund financial literacy training; and
3. conduct a feasibility study by November 30 of this year, with the goal of implementing a free or low-cost "access" account for individuals with limited or poor credit histories, or limited experience in dealing with banks.

First Chicago Chairman, President and Chief Executive Officer Verne G. Istock sent a letter to the Chicago CRA Coalition stating his recognition of the need for such access accounts, his personal commitment to developing an account that will serve that need, and his willingness to work with the Chicago CRA Coalition on this important issue. I appreciate First Chicago's commitment and look forward to working with the new bank on these financial services issues.

I must add, however, that I am very troubled by Banc One's failure to negotiate with community groups in its other markets. If the new bank is to serve the convenience and needs of the communities in which it conducts business, it must negotiate in good faith and enter into similar CRA agreements with community-based organizations in *all* of its markets.