

Panel 12

**Board of Governors of the Federal Reserve System**

**Statement by Richard Devine  
on behalf of the Center for Community Change  
on the  
Application of the NationsBank Corporation of Charlotte, North Carolina  
for Approval Under the Bank Holding Company Act  
to merge with  
BankAmerica Corporation of San Francisco, California**

**July 9, 1998**

The Center for Community Change (CCC) hereby submits this statement to the Board of Governors of the Federal Reserve Board in connection with the Application of the NationsBank Corporation of Charlotte, North Carolina to merge with BankAmerica Corporation of San Francisco, California.

CCC is a national, not-for-profit organization headquartered in Washington, DC that provides technical assistance and research on behalf of local community-based organizations serving low-income and predominantly minority constituencies. For almost thirty years, CCC has been especially active in advising community groups on their efforts to develop and implement community reinvestment strategies designed to stimulate the flow of private lending and investment to underserved urban and rural communities.

The merger of NationsBank and Bank of America, two of the nation's largest banks, promises to have important and profound implications for the residents and businesses located in the many markets currently served by these institutions. CCC is mindful of the fact that community groups from different markets served by one or both of these banks have complained about various inadequacies in their Community Reinvestment Act performance records. Further, some of these local citizens' groups have also raised questions about whether the proposed consolidation will result in reductions in lending or deterioration in the quality of essential banking services for their areas.

In an effort to address some of the concerns that have been expressed, the two banks announced on May 20<sup>th</sup> that they would make a ten-year, \$350 billion community development commitment. While substantial on its face, the commitment lacks important details about how this ambitious effort will be undertaken, not just for the twenty-two states now served by the two institutions, but for new market areas as well. A detailed implementation plan should be required by the Federal Reserve Board should the purposed merger be approved.

Additionally, we believe the merged institution should be required as a condition for approval to establish and capitalize a non-profit corporation that would have two principal purposes: first, to improve access to and terms of credit for low and very low income households in all market areas affected by this proposed merger, and second, to preserve the affordable housing inventory that is either rapidly being converted to market rate properties in places like the greater San Francisco Bay Area, or being left to deteriorate at an accelerated pace in communities where the conditions for conversion to market rate housing have yet to evolve.

We advance this proposal because past experience with mergers of lesser scope and magnitude has demonstrated conclusively that multi-million or billion dollar loan commitments, however well-intentioned or implemented, do not address fundamental issues of income and asset inequality that permeate our society. Also, we believe very strongly that communities and populations now "credit-scored" below the minimum established for participation in regulated credit and banking markets should be accorded the same benefits as the senior executives of NationsBank and BankAmerica who will realize great personal gain from a favorable regulatory ruling. With funds equal to those earmarked for the care and comfortable retirement of senior executives, it will be possible to acquire, rehabilitate and preserve for at least an additional thirty-five years approximately 75,000 affordable housing units.

It is our understanding that as part of the proposed acquisition/merger, senior executives of NationsBank and BankAmerica shall receive, at no cost to them, options to purchase stock of a new Delaware holding company at prices not available to the general public. In addition to this benefit, senior executives of each institution shall receive lump sum cash payments and other compensation typically referred to as "golden parachutes."

According to a recent NationsBank Corp. 8-K/A-2 filing, "...the combined company expects to incur pre-tax merger and restructuring items of approximately \$1.3 billion." Exactly what fraction of this total amount will be devoted to "exit costs related to contract terminations and other Reorganization costs" has yet to be disclosed. An article published in the San Francisco Chronicle on April 15, 1998, states that "the five highest paid BankAmerica Corp. officers would collect a total of more than \$65 million in severance pay and windfall stock profits if they lose their jobs in the proposed merger with NationsBank Corp." And that "a thousand other senior managers also are covered by the San Francisco banking giant's generous golden-parachute program. If they all get dumped, they collectively would be entitled to severance benefits estimated at well into the hundreds of millions of dollars."

Our proposed new, non-profit corporation will be capitalized from two sources: a cash contribution from NationsBank and BankAmerica (and other institutions in similar circumstances such as Wells Fargo, NorWest, Citicorp and Travelers) equal to the sum of all exit costs related to the termination of employment of senior executives and stock options equal in number and all other respects to those granted to senior executives of the affected institutions as part of the action(s) requiring regulatory approval.

The initial cash contribution, which will match on a dollar-for-dollar basis the sum of all golden parachute payments, will allow the new corporation to commence immediately and stock options, assuming the prosperity of the new holding company, will provide funding for future years. If these measures are implemented, there should be no need for additional funding.

The new, non-profit entity will be governed by a Board of Directors having equal representation from the financial community and persons or organizations representing low and very low-income residents of the affected market areas. The corporation would have a paid staff and be subject to all statutes, rules and regulations governing this type of organization/activity. The stock options would be held by an appointed trustee.

We ask that in your consideration of this application you recall that thirty-one years ago a presidential committee that included two of the Bay Area's most revered business leaders, Edgar F. Kaiser (Chairman) and S.D. Bechtel, Jr. and had as a technical advisor one of the University of California's most esteemed economists, Wallace Smith, was charged "to find a way to harness the productive power of America ... to (address) the most pressing unfulfilled need of our society. The need is to provide the basic necessities of a decent home for every American family." Progress has been made in three decades, but the basic need remains unfulfilled.

In its promotional literature the Bank of America often quotes a statement of its founder, A.P. Giannini: "In everything we do we are actuated by one motive - to build our neighborhood, our community and our state. In that way we are building a better America." We believe that establishment of the non-profit corporation we have proposed would build better neighborhoods and communities in California and all other areas in the nation affected by this merger.

Good evening, my name is Rose Jacobs Gibson and I am a City Council Woman in East Palo Alto. I appreciate the opportunity to express the community's concerns regarding the merger of Bank of America and Nations Bank.

Over the past years, Bank of America has endorsed the notion of addressing the banking needs of low and moderate income customers. This can be seen in their Community Reinvestment Projects, such as the Jammin' Hoops Basketball program and the East Oakland Youth Development Center. However, East Palo Alto is one community Bank of America has neglected.

East Palo Alto is a city with a population of 25,000 people, which is predominantly African American and Latino. Throughout its history, East Palo Alto has been greatly underserved by banking institutions. Fifteen years ago, many of the bank branches that once existed in East Palo Alto closed. BofA was the first bank to leave. As a result, residents must travel long distances to deposit pay checks, withdraw cash, and get change for their businesses.

Local merchants report that they are unable to develop the kinds of relationships with lenders that could result in access to credit. In addition, the City reports having difficulty securing loans as well as other discriminatory lending practices despite federal fair lending laws. The Home Mortgage Disclosure Act data for 1996 suggests that only 68.42% of home loan applications from East Palo Alto were ultimately approved. In addition local business reports having difficulty securing loans and receiving good rates of interests on loans. Seventy-two percent of the small businesses responding to the EPA CAN DO survey reported that financial institutions support small businesses in the community either "very poorly" (48%) or "poorly" (24%). Only 8% of the small businesses responding to the EPA survey reported that financial institutions met their credit needs. Because of this, EPA developed a program called the Financial Services Incentive Program. This program was developed to make it easier for banks to locate in East Palo Alto. As a result, Bank of America began to provide grants to East Palo Alto. However, this is not enough. Whenever we talked to bank executives about opening a branch in EPA, their reasons for not doing so always boiled down to money and profits.

The absence of a bank in East Palo Alto is a constant reminder to residents that they are being deprived of something that every community deserves. Bank of America's merger application states that "low and moderate income markets have proven to be profitable and valued business segments for both banks", however, this has not been our experience. BofA has refused to open a branch despite knowledge of economic development progress. On June 27<sup>th</sup>, we had our first Groundbreaking ceremony on Phase I of a major retail center with Home Depot, Office Depot, Comp USA and Good Guys as major anchors. It took nearly 10 years to get a BofA ATM. Will it take us another 10 years to get a branch bank? Whenever the city of East Palo Alto tried to negotiate with BofA to get a branch in our city, BofA always gave us the excuse that they are downsizing and are no longer opening new branches. However, in April of 1997, BofA built a new branch located in Stanford Shopping Center. This is a branch located in a high income community. And East Palo Alto was ignored.

This merger will facilitate more branch closures, which will result in job loss, as for many and death to the banking needs of low-income communities. East Palo Alto is a living example of this.

Last May, NationsBank and Bank of America unveiled a \$350 billion, 10 year commitment to community development lending and investment, but how much of this money will be given to East Palo Alto? B of A's \$350 billion announcement lacks specificity. Throughout history, East Palo Alto has been forgotten by many financial institutions. Our cries for help has been left unanswered. Many financial institutions has turned a deaf ear. This testimony is not meant to be an accusation but a mere statement of fact. The only financial institution that came to our aid was a bank in Sacramento. They provided us with the redevelopment funds (in the form of loans) our city needed.

The Community Reinvestment Act was enacted to encourage banks to meet the credit and banking service needs of their entire community, including low-and moderate income neighborhoods. However, East Palo Alto is still undeserved. Although Bank of America and NationsBank have a great plan for Community Reinvestment, East Palo Alto does not seem to be included in that plan. For example, in 1992 Bank of America promised to continue and increase their lending program to meet the needs of low income residents. However, East Palo Alto did not benefit from this (please see attachment # 1).

We ask you, the Federal Reserve Board to take into consideration the banking needs of East Palo Alto. We are a small city that deserve the same services that every community in California already has. The Federal Reserve Bank Board have the power to enforce the Community Reinvestment Act on our behalf.

Sincerely,

Rose Jacobs Gibson  
City Council Woman



Bank of America

Richard M. Rosenberg  
Chairman and  
Chief Executive Officer

Post#  
Fax Note R7673  
To Clarence  
Fax# 916-442-7852  
Date 7/8 # of pages 10  
From  
Phone#

July 13, 1992

Post#  
Fax Note R7673  
To Myra  
Fax# 650-853-1608  
Date 7/8 # of pages 10  
From  
Phone#

Dear Members of the California Reinvestment Committee:

Bank of America NT&SA ("Bank of America" or "Bank") and the California Reinvestment Committee (CRC) have a long term working relationship. The bank has met with the CRC quarterly and will continue to do so, to discuss performance, community perceptions and credit needs, and upcoming market opportunities. We have engaged in extensive discussion with the California Reinvestment Committee since the announcement of our proposed merger with Security Pacific Corporation. Some items described below involve goals and activities of BankAmerica Corporation ("BAC") and its subsidiary banks in states other than California, and its community development lending subsidiary, Bank of America State Bank ("BASB"). The outcome of these discussions is that Bank of America and CRC are in agreement on the following enhancements to Bank of America's and BAC's Community Reinvestment Act (CRA) programs:

I. INCREASING EXISTING BAC CRA GOALS  
COMMENSURATE WITH INCREASED SIZE.

BAC and its subsidiary banks are committed to increasing CRA lending to meet the needs of low income residents of the western states they serve throughout the decade. BAC has set goals for its subsidiary banks as follows:

- Low Income Housing. \$150 million on average annually for development and long-term financing of low-income housing.
- Conventional Small Business. \$200 million on average annually for conventional small business loans under \$50,000.
- Special Small Business Programs. \$100 million on average annually for government-guaranteed and other special programs for small and micro-business enterprises and for commercial improvement or development, including both direct and indirect program.

Attachment #1

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- Consumer loans for lower income households. \$12 million on average annually under the BASIC program, which includes personal, auto, home equity, and home improvement loans that carry modified underwriting terms.

The Corporation's lending goals are baseline numbers, and do not constitute a ceiling on any subsidiary bank's lending programs. The Bank of America will meet annually with the CRC to discuss adjustments in these goals to reflect market demand and inflation.

## II. MULTI-FAMILY AFFORDABLE HOUSING LENDING

A. Increased Dollar Goal. Bank of America's annual goal for California is \$100 million.

B. Targeting Very Low-Income. On the issue of targeting solely those projects, or portions thereof, that serve very low-income households, we will continue to report both low- and very low-income results, and we will make our best efforts to maximize dollars to very low-income households. We will strive to allocate two out of every three dollars to units that serve very low income households. This target will be a stretch to reach and we both acknowledge that legitimate reasons outside of our control may exist for meeting, exceeding or falling short of this goal. The realization of this goal, however, will not compromise or terminate efforts BASB is making and will make to extend credit for transactions in under-served markets (i.e., types/size of loans and geographic areas) that address the needs of very low- and low-income households. In instances where Bank of America has a choice of projects, we will give priority to projects that have greater depth of affordability and longer length of affordability.

C. Processing of Affordable Housing Loans. Recognizing CRC's desire for a shorter processing time for individual transactions, to say nothing of our own need, BASB will establish internal timeframes which will be approved and monitored by BASB's Board of Directors and shared with its Advisory Board. These timeframes will be shared with the CRC in the quarterly meetings. This effort to establish an internal timeframe will not come at the expense of our basic operating philosophy of working with non-profit organizations in the early stages of development to offer technical suggestions on deal structuring, or possible sources/uses of funding or identification of hurdles that similar projects have encountered.

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D. Appraisals. Bank of America is willing to release copies of appraisals to a nonprofit affordable housing developer.

The Bank is willing to release a copy of the appraisal to other lenders participating in the project financing so that the project does not incur additional expenses.

E. Mobile Homes. Bank of America will expand its lending on coaches located in designated low-income co-ops as initiated in the Santa Elena Park in Soledad, California. Bank of America will implement a \$10 million, 3-year pilot program utilizing the BASiC product. A limitation of financing 25 percent of the coaches in any single park will apply. However, the Bank will review applications for exceptions to the 25% limitation on a case-by-case basis, and it may waive the requirement if extenuating circumstances exist.

F. Federal Home Loan Bank. BAC intends to seek for BASB or an other BAC subsidiary bank, membership in the Federal Home Loan Bank ("FHLB") strictly as a means of accessing grant funds under the Affordable Housing Program. It should be recognized that FHLB membership is designed for membership by thrifts, not commercial banks. Membership will be applied for, provided the costs associated with such membership do not significantly outweigh the expected benefits of participation in the AHP Program.

### III. SINGLE FAMILY LENDING

As stated in the Bank's October 22, 1991 letter to the CRC, the Bank has expanded the Neighborhood Advantage program beyond lower income census tracts/zip codes to all areas of the State. Further discussions were held with CRC representatives in January 1992. General agreement on program features was reached at that time. Since March 16, Neighborhood Advantage is available on an "either/or" basis: households purchasing properties within lower income census tracts/zip codes remain eligible for Neighborhood Advantage underwriting guidelines without an income cap; households purchasing homes outside designated census tracts/zips are eligible when their income is within 120% of the area median income. It was agreed that, since there is no limit on the funds available for this program, it is appropriate to allow up to 120% of the area median income as an income cap with the understanding that CRA is interested primarily in lending to households under 100%. The Bank will separately report loans to applicants below 100% of median.

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#### IV. FOCUS FUNDING

Bank of America will not continue Security Pacific's Focus Funding interest rate program. It has agreed with the CRC, however, to honor the 1992 commitment made by Security Pacific to the CRC by establishing a \$3 million revolving predevelopment loan fund to be used by nonprofit intermediary lenders. The Bank will review demand and market factors with CRC annually and determine the amount of additional investment, if any, in these funds. Generally two thirds of this fund will be allocated to California. The Bank has agreed to explore setting aside a portion of the fees earned on preservation project loans to fund a pool for higher risk predevelopment loans. A proposal is being finalized by the Bank and will be presented to CRC by June 30. It has also agreed to explore the use of benevolent deposits to buy down interest rates on predevelopment loans.

In addition, Bank of America has agreed to purchase \$50 million in 1991 low income housing tax credits, of which \$40 million will be invested in California. This amount includes the entire \$12 million unpurchased for the state program. Bank of America has also agreed to purchase an additional \$5 million in tax credits for each of the years 1992-1995. These funds will not be drawn from its existing corporate contribution budget and are in addition to the multifamily housing lending subgoal discussed above. This program will be monitored by BASB's Board of Directors.

#### V. RACIAL DISPARITIES IN REAL ESTATE LENDING

A. Fair Housing. The Bank will appoint a person as a liaison to the community on fair housing issues. This person's responsibilities will include monitoring the Bank's progress in fair lending, identifying bank lending practices that may work against achievement of fair housing objectives and working with other bank units to develop methods to overcome any existing impediments.

B. Improving Performance. Bank of America will attempt to significantly improve its performance in lending to racial minorities as demonstrated in its 1990 HMDA Statement. Bank of America has hired Price Waterhouse to review declined loan files in an effort to identify the specific reasons for denials of minority applicants who were denied based on credit history. The Bank plans to discuss the results of this review and possible steps to be taken based upon those results with CRC.

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## VI. BANK SERVICES

A. Identification. Recognizing Security Pacific's current policy, Bank of America is actively working towards requiring only one piece of identification to open an account or to cash a check. Specifically, we expect that a driver's license (U.S. or foreign), California Identification card, or a current passport (US or foreign) will be acceptable forms of identification in California within a reasonable time period following effective date of the merger.

B. Limited Checking. Bank of America's Limited Checking Account is \$3.50 a month, with no minimum balance and an opening deposit of only \$25.00. Limited Checking Account customers have full access to Bank of America services. This product includes a Versatel card, the ability to cash checks, withdraw funds, and make deposits at any branch. This product will be enhanced by increasing the number of checks allowed, at no additional charge, to 10. BAC intends to make this product or its equivalent available in the other states where it has a retail banking presence. BAC's banking subsidiaries in Washington, Oregon, Nevada and Arizona are already discussing equivalent programs planned for those states with local community groups and coalitions.

C. Check Cashing. Checks drawn on the new Bank of America, and federal, state, and local government checks will be cashed at no charge at any Bank of America branch in the state in which the customer's account is located, provided proper identification is provided. A fixed fee of \$5.00 will be charged for cashing nongovernment checks for noncustomers.

D. Branch Closures. We recognize the importance of a branch network in meeting our communities' financial services needs. To that end, we will use the following parameters as we identify branches for consolidation/closure:

- maintain or enhance the existing level of service. No new underserved areas in lower-income markets will be created by the consolidation/closure of a Bank of America or Security Pacific branch.
- not consolidate/close any branch located in a low income area except in the case of a "redundancy".
- when branches are consolidated and closed, Bank of America will retain and transfer all customer records and account histories to the new branch.
- provide a minimum 120-day notice of branch closures in lower-income neighborhoods.

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- consider transferring surplus sites (including by donation) to community-based, nonprofit economic development organizations on a case-by-case basis, depending on such factors as ownership status, lease requirements, and market conditions.
- ensure that women and minority employees are not disproportionately affected. Efforts to increase the employment of women and minorities throughout BAC will continue.

#### VII. SOCIAL POLICY ADVISORY COMMITTEE

Bank of America has agreed to create a Social Policy Advisory Committee ("Committee") as a way to increase community input. This Committee will provide advice and counsel to the Bank's Social Policy Committee on matters that pertain to the Bank's Community Reinvestment Act activities and performance. Such topics as Fair Housing and outreach to specific communities will be discussed and monitored. This will be a working committee, whose comments and perspectives will be considered by the Bank in its program planning and monitoring.

The Committee will meet with the Social Policy Committee at least twice a year. The agendas for these meetings will be set in advance, based on requests made by Committee members and on issues identified by the Bank. Staff support will be provided by the Bank's Corporate Community Development Department. Issue specific joint work groups comprised of member(s) of the Committee and the Social Policy Committee will be established by the Chairman of the Social Policy Committee, who will be charged with developing suggested responses to issues of concern and will make action recommendations to the Social Policy Committee.

The Committee will be composed of six to eight individuals chosen by the Chairman and CEO of the Bank and the Chairman of the Social Policy Committee from nominations and comments received from California community groups such as the California Reinvestment Committee. Members will be chosen as individuals, not as representatives of specific organizations. Efforts will be made to select members that reflect the ethnic and geographic diversity of California. Criteria for selection include personal and professional reputation, knowledge, willingness and ability to work with the Bank, and respect for the confidentiality and sensitivity of the issues to be discussed. Because of the importance of the Committee, members will be expected to attend all meetings.

Members will be compensated for their time, and may elect to have the funds donated to an organization of their choice. Members will serve for staggered three-year terms.

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## VIII. CHARITABLE SUPPORT FOR COMMUNITY DEVELOPMENT

Bank of America will recommend to the BankAmerica Foundation's Board of Trustees that they allocate 10 percent of the Foundation's budget annually (with a minimum level of \$1 million) for community development grants. The CRC will provide input to Bank of America in designing a program that will include economic development initiatives in addition to affordable housing.

## IX. ECONOMIC DEVELOPMENT

BankAmerica will implement new programs, small micro-business enterprise loans and minority business loans in California and strive to develop these same type of programs in Washington, Arizona, Nevada and Oregon.

B. Small Business Loans and Enterprise Zones. BASB will continue to work with CRC to report and prioritize small business guaranteed loans. For those small business loans made to businesses located in state designated enterprise zones, BASB will quantify the tax credit savings accrued to the Bank during the first 12 months after the merger and discuss with CRC possible affirmative uses for those funds.

C. Recycling Enterprises. A representative of the Bank's environmental policy unit will meet by June 30, 1992 to discuss with CRC the possibility of financing for recycling enterprises sponsored or conducted by nonprofit organizations.

D. Product Development. Product development staff for conventional small business credit will meet with CRC representatives by June 30, 1992. The goal is to allow CRC to provide input in product design and delivery planning.

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E. Predevelopment Loans. Our understanding of the predevelopment loans under discussion is that they would not be considered prudent extensions of credit. We will explore participation in the Los Angeles Collaborative or other forms of support for its participants. However, if philanthropic funds are used, these will be part of the 10% community development allocation cited in section VIII.

F. Development Training Institute. We will welcome the identification by CRC of potential candidates for sponsorship of DTI training.

G. Local Programs. BASB will continue to develop special programs to meet specific credit needs in local areas.

#### X. CRA PROGRAM FOR OTHER STATES

To ensure each BAC subsidiary bank strives to attain its CRA-related goals, the Bank's California CRA officer will continue to visit each new subsidiary bank within 90 days of acquisition to perform an evaluation of the existing internal structure for CRA and to recommend to the subsidiary's management and board a CRA Action plan designed to initiate programs and activities. The California CRA officer will also continue to provide ongoing support and technical assistance for each BAC subsidiary bank. Each subsidiary bank will adopt a management level CRA oversight committee, or equivalent process, and also report to the Social Policy Committee.

Specific CRA programs such as Neighborhood Advantage and BASIC are replicable and will continue to be adapted in other states by BAC subsidiary banks to meet local credit needs. BASIC has already been introduced in Oregon, Nevada, Arizona, and New Mexico. Neighborhood Advantage has already been introduced in Washington, Oregon, Arizona, New Mexico and Nevada. In all states, existing CRA commitments of Security Pacific will be honored.

In addition, dollar goals will be set state-by-state as part of BAC's \$12 billion, 10-year corporate goal announced October 17, 1991.

Bank of America understands that the CRC does not purport to represent communities in other states, and that the inclusion of these general principles in this letter is not intended to substitute for negotiations and agreement between the Bank and community groups in other states.

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## XI. QUARTERLY MEETINGS

Bank of America will continue the quarterly meetings with the California Reinvestment Committee, with reports submitted at least two weeks in advance of each meeting showing each booked multifamily affordable housing loan, including:

- total loan amount and amounts allocated for low- and very low-income housing;
- loan type: construction, acquisition and construction, permanent (and term);
- city or county;
- unit mix and number of units: very low, low, moderate market;
- type of project: rental, for sale, self-help, etc.;
- type of borrower: nonprofit, for profit, joint venture;
- whether concessionary terms were part of the loan;
- application date (pending definition)
- commitment date; and
- closing date.

The Bank will provide similar information for loans in the pipeline, along with the estimated quarter for closing and an estimate of the probability of closing. The report will also provide the number of applications discouraged and declined, and the reasons for discouraging or declining those applications.

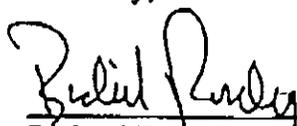
The Bank recognizes that CRC continues to be concerned about issues which have been raised by other groups. The Bank and other BAC subsidiary banks have discussed these issues with such other groups, including but not limited to Communities for Accountable Reinvestment, the Washington Reinvestment Alliance, Southern Nevada Affordable Housing Reinvestment Coalition, the Northern Nevada Reinvestment Alliance and ACORN-Phoenix. These issues include small business loans, branch site donations, racial patterns in real estate lending, job losses and economic dislocation, and other matters as well.

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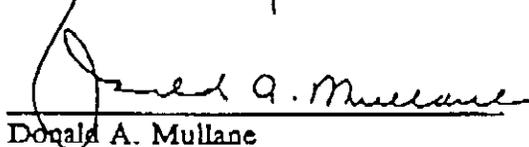
XII. CONCLUSION

Bank of America appreciates the concerns and cooperative spirit of CRC in assisting the Bank to more fully understand issues of importance and in developing effective ways to address the needs of low- and very low income individuals and communities. We look forward to continuing a positive working relationship with CRC.

Sincerely,



Richard Rosenberg  
Chairman and Chief Executive Officer



Donald A. Mullane  
Executive Vice President



A Community Development Corporation

Panel 12

July 9, 1998

Ms. 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

Dear Ms. Hoffman-Molloy:

Madam Chairman and Members of the Committee, the East Palo Alto Community Alliance and Neighborhood Development Organization ("EPA CAN DO") wishes to thank you for the opportunity to present testimony regarding the proposed merger of Nations Bank and Bank of America to the City of East Palo Alto. My name is Leonard Randolph, and I am the Executive Director of EPA CAN DO, a non profit community development organization who's mission is *to enhance the quality of life for all residents of East Palo Alto by empowering our members to engage in housing, economic and community development.* EPA CAN DO was founded in 1989, as a direct result of community residents organizing to attract a financial institution to East Palo Alto. We serve a very low income population within San Mateo County, one of the wealthiest counties in the country. The median income for our city (\$34,000 for a household of 4) is approximately half of the county's (\$68,600), and 18.6% of our population lives below the U.S. poverty level according to the 1990 census. The private sector and the surrounding jurisdictions contributed to these conditions through pillaging of our resources and disinvestment.

I would like to raise three (3) concerns with respect to the merger of NationsBank with Bank of America and the moving of the corporate headquarters to Charlotte, NC. 1) As a community development corporation (CDC) that is engaged in affordable housing development, we are extremely concerned about the potential impact this merger will have on lending for multi-family housing developments. I applaud the 10 year \$350 million commitment in community development lending and investment that, as Mr. Hugh McColl described is "a floor and not a ceiling." I also commend you on your commitment to "acquire, build or rehabilitate 50,000 affordable housing units" over this same time period. But, if my math serves me correctly, the \$115 million NationsBank and BankAmerica have allocated for affordable housing equates to only \$2300 per unit. While this may be adequate in the southern states, though I very much

doubt it, in California, and especially the San Francisco Bay Area, this is woefully insufficient to meet our building costs.

To date there has been no commitment from Nations Bank to prioritize loans or lines of credit for affordable housing developments serving very low income (50% of AMI) households. As the median income of East Palo Alto is 50% of the AMI, our ability to provide housing opportunities for our residents would be severely hampered should Nations not continue supporting these developments. We are equally concerned that with this merger, a new CDC will enter the California market to develop housing. I am well aware that Nations Bank's CDC has been extremely successful in developing over 14,000 units, but having them enter this heavily saturated market makes me uncomfortable. Community-based and grass-root development organizations are uniquely qualified to represent, develop products and provide services that truly benefit their communities. Removing this local connection, will mean that the concerns of the community will give way to the bottom line of the disconnected outside agency. In my opinion this will lead to the demise of community-based groups, the displacement of low-income households and ultimately to the destruction of the community.

2) Mr. McColl indicates that it is their intention to "employ more people, lend more money, do more business with minority vendors, be more active in the community and generally make a bigger difference than our predecessor institutions." These are noble intentions indeed, and I admire his commitment to community development. But I do have a concern about past performance and future accountability. To make the best difference in our community we need the presence of neighborhood based financial institutions with local employees and advisory board. The city of East Palo Alto has been without a financial institution since 1984. The former Bank of America site, closed in the 1970's, and is now a McDonalds. A Wells Fargo site, also closed in the 1970's, and is now home to a number of non-profit organizations. Glendale Federal was the last to leave the city in 1984, and their building now houses the city's Community Development Department. While East Palo Alto does not have a single bank branch, we have over 12 locations, including convenience and liquor stores, where our residents cash checks and get money orders at exorbitant prices. Disinvestment by banks over the past 14 years has dealt a severe blow to our community, eroding the city's economic base, forcing money out of the community and creating hardship for our residents. In June of this year, Bank of America opened the first ATM connected to a major financial in our community. And while I applaud this small step, I am a little chaffed that it took two and a half years from whence the discussions first occurred with Bank of America.

Regardless of how much banking patterns and surveys will tell you that in-store banking and electronic banking are what people find convenient - this does not tell you why check cashing outlets and pawn shops flourish in low income communities. In the last 10 years, as banks have abandoned low income communities, the number of pawn shops has doubled. There is plenty of financial activity going on in our communities but at exorbitant prices and in an unregulated environment. People use these facilities because for one, they're there. In another survey we conducted outside check cashing outlets, we found 48% of respondents had bank accounts, 30% of them with Bank of America. Secondly, these outlets are attractive because they are staffed by human beings, who provide services in various languages, and with whom customers

can build the relationships that we all know are necessary for borrowing. The lack of branch access especially affects our local merchants. Small business owners have told us they go outside East Palo Alto to deposit their checks to their bank branch in person, three times a week sometimes, in order to develop the relationship they will later need for borrowing. This has become the cost of doing business in low income communities. In a survey we conducted last year 70% of East Palo Alto businesses stated their financing sources were not banks, and over 73% felt that financial institutions rated poorly or very poorly in meeting their needs. It is very important that banks, in their desire to cut costs and consolidate operations do not forget the needs that small businesses have for cash. Mini branches will need to be staffed appropriately for merchant services.

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People in low income communities have a much larger need to develop personal relationships with lenders and for tellers who will help them open checking and savings accounts, understand their bank statement or apply for a loan. It is unrealistic to expect that the electronic hurdle will be overcome easily in low income communities. More importantly, moving to electronic banking clearly benefits higher income clients and furthers disparity.

If NationsBank and BankAmerica are going to reach their lending goals in low income communities, it needs to be a full participant in creating the conditions that make lending possible. This includes not just indirect job creation through consumer and business lending, it also means direct job creation. The disproportionate closing of branches in low income communities and the refusal to open new ones impacts the joblessness and spending rates in these communities and results in stagnant local economies. We all know banks need robust economies in order to reinvest. They must then participate in the process fully..

3) BankAmerica Foundation has long been a contributor to our organization, and in particular their contributions have supported our economic development program which works with small businesses, child care providers and local contractors. Through their generosity we have provided technical assistance, loan packaging and monitoring, financial management workshops and one-on-one counseling to local merchants. We work with the business population that has traditionally been under-served by major financial institutions, the small mom and pop stores. BankAmerica has also launched its Community Access Initiative in six locations including East Palo Alto. I am encouraged to here that the combined giving of BankAmerica and NationsBank will exceed \$100 million, yet I am unclear as to what the commitment to California will be. I truly expect that the Community Access Initiative will remain in place and that support given to community-based organizations will continue to increase in the future.

We do not support the proposed merger of NationsBank with Bank of America unless the Federal Reserve requires them to clearly define their strategy for reaching low income communities whose deposits they hold. We believe this is the only way the unscrupulous, unregulated financial system that is currently the reality in low income communities will disappear. Additionally, we want NationsBank and Bank of America to commit specifically to open fully staffed branches in East Palo Alto and other low income communities.

Yours truly,



Leonard Randolph  
Executive Director

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# CITY-COUNTY REINVESTMENT TASK FORCE



Jim Bliesner • Reinvestment Director

Panel 16

**PUBLIC STATEMENT TO THE FEDERAL RESERVE BANK of San Francisco  
NATIONS/BANK AMERICA MERGER**

**JULY 9, 1998**

**JIM BLIESNER**

**REINVESTMENT DIRECTOR  
SAN DIEGO CITY/COUNTY REINVESTMENT TASK FORCE**

On behalf of the City and County of San Diego I would like to express my appreciation to the Federal Reserve Bank of San Francisco for allowing the public to provide comment on this merger and the potential impacts it may have in our communities.

The Reinvestment Task Force is a quasi-public agency established by joint resolution of the San Diego City Council and the County Board of Supervisors in 1977. It has served continuously since then to monitor lending practices and to develop strategies for reinvestment. Its purpose is to develop partnerships between lenders, community organizations and local government to facilitate reinvestment in minority and low-moderate income neighborhoods throughout the County.

Membership on the RTF includes lenders, government agencies and community based non-profit organizations. In addition it works through a sub-committee of 16 non-profits who have been charged by City and County policy to develop San Diego specific CRA business plans (see attached policies: 1)

The Task Force has had a productive partnership with the Bank of America, defined by a San Diego Specific Reinvestment Plan developed in 1992 (see attachment 2). The reinvestment activities of the Bank have been recorded annually and reported to the City and County government. The performance of the Bank of America under that agreement has been stellar and in many ways has set the standard for reinvestment in the San Diego region (see attachment 3). The activities of the Community Development Bank in doing affordable housing throughout the region has been aggressive and innovative in many ways.

The focus of our remarks today are to formally file a letter of protest against this merger. There are a number of reasons for this objection;

- 1) In as much as this merger represents a threat to the use of the Community development Bank as method for doing CRA, we are opposed.
- 2) In as much as this merger represents a movement by the merged bank away from recognizing and validating the crucial benefits of forming specific local partnerships to eradicate disinvestment, we are opposed.
- 3) In as much as this merger represents the potential for higher fees for home loans, for checking accounts, for check cashing services, for small business loans, and for other basic banking services, we are opposed.
- 4) In as much as this merger represents increased costs, limitations in services, increased interest and fee rates for micro and small business borrowers, we are opposed.

In addition to these concerns and objection I would like to highlight some specific issues with the performance of the Bank of America in the San Diego region and seek redress in this merger process. As we stated the Community Development Bank has exhibited stellar performance in its stated goal. What has been missing with the Bank has been the recognition in the mainstream bank that it too has responsibility for implementing CRA investment. For example;

Of the top ten home mortgage lenders in the San Diego market there is an annual rejection rate over a period of five years, for African American borrowers of about 22%. Overall this rate is higher than rejection rates for other ethnic groups and for Caucasians. This ratio of rejection is basically duplicated in older, lower income communities. But this high rate is exceeded by the Bank of America consistently. On average over five years the bank of America shows a 40% rejection rate for this population This is almost twice the rate of other lenders. It is a striking statistic. What lending policies of Nations Bank will mitigate this problem?

The Bank of America has shown a consistent decline in its level of home mortgage lending in minority communities under 120% of median income between the years of 1992 and 1996. Though the Bank of America is always one of the top ten lenders in this market if they are compared with their peers (e.g.) Home Savings, GreatWestern, American, their market share has shown regular decline or sporadic behavior at best. (attachment 4).

On small business lending, of course, we do not have a full statistical accounting as yet. The experience of the RTF is defined by a number of small business credit needs assessments in lower income communities throughout the county. In some cases the Bank of America is the primary lender in terms of branch locations, a fact we would applaud them for and encourage to continue. However, in these neighborhoods, with thousands of small businesses, we find a consistent and overwhelming experience of dramatically higher levels of rejection on small business loan applications than in other communities

or in comparison with national and state averages (see attachment 5). We encourage a serious look by the regulators at the small business lending statistics of both Nations and the Bank of America before approving this merger.

Finally, we are concerned that the size of this merger and the potential arrogance that it may engender in its corporate culture has been recently experienced by the reinvestment task Force in our efforts to dialogue with the two institutions regarding the continuation of the 1992 Bank of America Reinvestment Strategy for San Diego. Key personally from both banks attended as did key players in the affordable housing and economic development communities. When asked to validate, update and continue the San Diego plan we were told that they did not have time to do so at this point. How does the local community interpret this? A simple analysis says that they are too big to deal with local issues. There is no link between Charlotte North Carolina and San Diego and certainly there is not time in the context of such a major merger to respond to a single counties credit need a and efforts to obliterate disinvestment in its communities.

The RTF has nine agreements with the major lenders, mostly all being California based institutions. In our first encounter with a national bank we are told they do not have time. This experience provides us with a metaphor for the future. It may be that eventually, they may not have time for the Federal Reserve Bank either (see Travelers/Citicorp merger and Office of Thrift Supervision).

# ATTACHMENT 1

## COUNCIL POLICY

SUBJECT  COMMUNITY REINVESTMENT MASTER PLAN	POLICY NUMBER	900-09
	EFFECTIVE DATE	04/15/91

BACKGROUND

Lending institutions, through their credit practices and the banking services they provide, play an essential role in maintaining healthy businesses and community institutions and promoting savings by and providing jobs and affordable housing for San Diego Residents.

Banks are granted a public charter conveying numerous economic benefits for which they must in return serve a public purpose. Federally regulated financial institutions are required to comply with the Federal Community Reinvestment Act of 1977 (CRA). CRA requires that financial institutions act affirmatively to meet their local communities' banking needs as a condition of being granted a charter.

Local government is uniquely able to identify specific community deposit and credit needs and is a major consumer of banking services. The City of San Diego can encourage banking practices and programs which are responsive to community needs and support community-based organizations in establishing positive working relationships with local banks within the context of CRA.

PURPOSE

It is the purpose of this policy that the City encourage lending practices and programs that promote the economic stability and growth of the City of San Diego and meet the credit and banking services needs of all of its neighborhoods and residents.

POLICY

It shall be the policy of the City to encourage each lender doing business within its boundaries to develop and implement a San Diego-specific community reinvestment program consistent with CRA. Such a program may include, but need not be limited to, the following reinvestment activities.

- ° Affordable single-family and multi-family residential mortgage new construction and rehabilitation lending, especially to nonprofit organizations and to women, minorities and low- and moderate-income persons;
- ° Consumer lending and checking and deposit services, especially to women, minorities and low- and moderate-income persons and neighborhoods;

**COUNTY OF SAN DIEGO, CALIFORNIA  
BOARD OF SUPERVISORS POLICY**

<b>Subject</b> County Community Reinvestment Policy	<b>Policy Number</b>	<b>Page</b>
	A-123	1 of 2

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- Affordable single-family and multi-family residential mortgage, new construction and rehabilitation lending, especially to nonprofit organizations and to women, minorities and low- and moderate-income persons;
- Consumer lending and checking and deposit services, especially to women, minorities and low- and moderate-income persons and neighborhoods;
- Small business and commercial lending, especially to women, minorities and low- and moderate-income persons and neighborhoods;
- Financial participation in County housing, redevelopment, revitalization and economic development projects;

# ATTACHMENT 2



**BANKAMERICA'S COMMUNITY REINVESTMENT ACT PLAN  
SAN DIEGO COUNTY  
JANUARY 1992**

BankAmerica's Community Reinvestment Act Plan  
San Diego County  
January 1992

I. INTRODUCTION

Described below are the elements of a San Diego - specific Community Reinvestment Act Plan for Bank of America National Trust and Savings Association both before and after its merger with Security Pacific National Bank.<sup>1</sup> This plan is intended to meet the intent of the City of San Diego's Council Policy #900-9.

We believe the request of the City and the County of San Diego and their various constituents for a description of BankAmerica's planned CRA activities, as they address the City's and County's needs, is a sincere attempt to enhance the availability of credit for lower-income and ethnic communities in the San Diego area.

BankAmerica has developed this plan based on many interactions with representatives of various constituents over the years. We particularly recognize the work of the groups convened by the City of San Diego and City/County Reinvestment Task Force in providing us with valuable input for this plan.

We hope that the City and County and its various constituents will recognize that Bank of America, as a statewide financial institution, by its nature brings a different set of resources than local institutions, and that there is a strong value to these. We also hope they will recognize that as an institution with a single but diverse delineated community, the State of California, for CRA purposes, we must provide a consistent approach to CRA activities. While this may mean less flexibility in some ways, it also means the availability of specialized skills, economies of scale, and the ability to do larger transactions that smaller, locally-headquartered institutions cannot provide. We believe our programs and activities add significant value to the role financial institutions as a group play in the San Diego Community.

We also hope the City and County and their various constituents will recognize that setting San Diego-specific dollar goals for lending programs presents us difficulty. Based on discussions with community groups and coalitions of groups throughout the state, we set dollar goals for our single community, the State of California. It is administratively difficult to subdivide and monitor these goals for the many localities that wish us to set individualized goals. Even more important, subdivision of the goals works against our ability to focus our resources on needs and take advantage of opportunities where they are the greatest. Our experience has shown that there are many variables in assessing community credit needs -- market conditions, specific needs in different areas, the capacity of nonprofits to support projects, to name a few. We believe an effective statewide CRA program

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1 For sake of clarity, we refer herein to the pre-merger bank as "Bank of America NT&SA" and the post-merger bank as "Bank of America".

including Bank of America NT&SA, when reviewing certain applications submitted by the Corporation.

We view the City and County of San Diego and their various constituents as partners helping us to determine local credit needs, providing comments and input on our CRA program, and in many cases helping us to meet local credit needs.

- C. CRA Program Goal. Bank of America, along with other banking subsidiaries of BankAmerica, has a goal of achieving and maintaining an "outstanding" rating for CRA performance. It currently has a rating of "outstanding". Bank of America State Bank, the Bank's community development affiliate, also has a rating of "outstanding" from its regulatory agency, the Federal Deposit Insurance Corporation (FDIC).
- D. Delineated Community. Bank of America NT&SA has a single delineated community, the entire State of California. Bank of America NT&SA serves California through its branches located in over 800 neighborhoods and cities. An important value Bank of America NT&SA brings to each of these neighborhoods and communities is the ability to provide resources and specialized expertise for local needs that local institutions may not have the capacity to provide.

We will continue to strive to distribute our resources equitably throughout our delineated community, but our ability to do so is affected by competitive factors, the availability of resources, local capacity, and local economic conditions. Further, we will take affirmative steps to distribute credit, help build capacity, and create partnerships where there is both a need and a local willingness to make that happen.

- E. Existing CRA Goals. In order to maintain its rating of "outstanding" in CRA performance, Bank of America NT&SA has in place a plan for its entire CRA community. This plan is "localized" through internal goals for operating units conducting CRA activities for geographic areas throughout the community.

As part of its existing CRA Plan, Bank of America NT&SA is working against a 10-year \$5 billion goal for specialized CRA lending. This current goal includes on average annually:

- \$400 million in home loans in low income census tracts.
- \$50 million in loans for development of low- and very low-income housing.
- \$40 million in SBA and other government-guaranteed small business lending.
- \$8 million in consumer loans to low-income consumers using the B.A.S.I.C program.

lending (loans between \$50,000 and \$500,000), government-guaranteed student loans, and financing for government entities.

In order to accomplish the overall CRA goals the new BankAmerica has set for itself, CRA-specific targets within those goals will be set based on communication with community representatives regarding the nature of credit needs, ways to meet those needs, and performance in meeting the needs.

### III. BANK OF AMERICA'S CRA PROGRAM AND SAN DIEGO COUNTY

Bank of America NT&SA's CRA Program relates to San Diego County as follows:

- A. Delineated Community. San Diego is a significant portion of Bank of America NT&SA's single delineated community. Bank of America NT&SA intends to continue the full range of banking services to the entire community, notwithstanding mergers, consolidations, acquisitions, headquarters location, and opening and closing of branches.
- B. Ascertaining Community Credit Needs. Bank of America NT&SA maintains, and will continue to maintain, an active program for ascertaining community credit needs. The cornerstone of this program is an annual Needs Assessment Calling Program conducted by two CRA Calling Teams covering San Diego County. In 1989, these teams made 82 calls and in 1990 they made 63 calls. For the year 1991, through October, 84 calls were made. See Exhibit I for a list of organizations called on. These calls have resulted in a description of credit needs for each of the Calling Team's respective geographic areas, which in turn feed into the description of the needs in Bank of America NT&SA's entire local community. Beginning in 1990, combined Needs Assessment and Marketing Calls were made by Bank of America State Bank officers and their input has helped identify San Diego County credit needs. Their calls (1990 and 1991 year-to-date) are also included in Exhibit I.

The needs assessment program for the merged institutions in San Diego County will consist of the following elements:

- Continued calls made by Calling Teams. Bank of America NT&SA maintains internal goals for its call program, and the goals for the merged institution will be at least as large as existed prior to the merger.
- Continued calls by Bank of America State Bank officers.
- Review of any special needs assessments, including those completed by the Federal Reserve Bank, SEDC, and the City or other public entity.
- Regular meetings with the representatives described later in this document in Section III (M).

including the one in San Diego. Using the \$100 million goal as a reference, Bank of America and Bank of America State Bank will strive to originate loans in the City and County of San Diego at a level commensurate with the size and level of needs in the City and County relative to our total local community. However, our ability to do so will depend on, among other things, competitive factors, availability of public sector and charitable support for local projects and local capacity to develop low-and very low-income housing. Another factor is the long lead times required for many deals to come to fruition.

For this type of financing, we tailor our underwriting to meet the specifics of each transaction.

Programs currently offered by Bank of America State Bank and Bank of America NT&SA in San Diego County include:

- Construction and rehabilitation loans for new and rehabilitated units of low-and very low-income housing.
- Resident motivated mobilehome park conversions.
- Site and acquisition financing for nonprofit developers of low-income housing projects.
- Government-assisted loan placements such as HUD- and Fannie Mae-insured mortgages.
- Participation in long-term financing provided by the California Community Reinvestment Corporation.

As of the time of writing, our activity in San Diego County during 1990 and 1991 has resulted in the following:

- In 1990, a \$4,000,000 loan closed for resident purchase of a 143 space mobilehome park in Vista. \$2,993,000 of the loan amount was allocated to low- and very low-income units.
- In 1990, we also issued a \$3,000,000 construction loan commitment for a 68-unit project in Southeast San Diego. 20% of the units would have been for low-income.
- Also in 1990, a \$80,000 loan to Casa Familiar in San Ysidro was closed with all funds allocated for low-income housing.
- In 1991, a \$4,078,000 loan for a multi-unit rental property in National City was closed. Of this amount, \$3,842,000 was allocated to very low-income units and \$236,000 was allocated to low-income units.
- During 1991, we have made commitments to finance the following projects:

There is no minimum loan size and applicants will not be disqualified due to lack of a credit bureau history provided they can demonstrate an ability and willingness to repay obligations through other verifiable records such as rent receipts, utility payments, and savings records.

2. To Minority Borrowers. In August 1990, Bank of America NT&SA retained a private consultant to conduct an analysis of its 1989 Home Mortgage Disclosure Act Report. The consultant finished the analysis in October 1990. As a result, Bank of America NT&SA initiated a number of steps to increase the level of applications from minority applicants and the number of approvals for minority applicants.

These steps include:

- Creation of a new review process for real estate loan applications involving minority applicants and/or applicants in lower-income census tracts. If the original underwriter in the Residential Loan Center "RLC" does not approve the application, it is passed to a senior officer at the RLC for another review. If a decline is recommended at that level, it is forwarded to corporate underwriting officers at the San Francisco headquarters. Bank of America NT&SA has allocated a special \$30 million fund for loans of this type that do not meet even the liberalized underwriting guidelines of Neighborhood Advantage, the home loan program for low-income areas. This review process is helping Bank of America NT&SA become more aware of why the loans are not approved at the field level, enabling it to take steps where appropriate to modify the credit review process.
- Creation of a new production staff to focus exclusively on originating home loans to low-income and minority customers through realty channels, in addition to originations through branches and wholesale mortgage brokers.
- Increasing financial incentives for loan officers to make creditworthy loans in lower-income areas.
- Modifying Neighborhood Advantage to allow down payments as low as five percent on selected loans for property in lower-income areas and, for a limited time, waiver of non-recurring closing costs and fee reductions on fixed rate loans in lower-income areas.
- Development of affirmative marketing programs, including Spanish-language advertising and bilingual services at selected branches and future plans to target marketing to other minority communities.
- Increased recruitment of minority loan officers.

1. The B.A.S.I.C Program. This program is available only to households that earn 80% or less of the area median income as calculated by the United States Department of Housing and Urban Development. For San Diego County residents, we use these income calculations as reported for San Diego County by the State Department of Housing and Community Development.

The program makes available auto loans, personal loans, manufactured housing (mobilehome) purchase loans, and home equity loans, including home improvement purpose loans. The B.A.S.I.C program allows longer maturities than available with conventional loans in order to reduce monthly payment amounts. Minimum loan sizes are smaller than for conventional products, e.g., the minimum loan size for a personal loan is \$1,000 instead of \$2,500. Applicants will not be disqualified due to a lack of a credit bureau history provided they can demonstrate an ability and willingness to repay obligations through other verifiable records such as rent receipts and utility bills.

2. Home Improvement. Personal and home equity loans and lines of credit may be obtained for home improvement purposes. Of special note, the B.A.S.I.C program (described above) home equity loan provides home equity and personal loans for home improvement purposes. During 1990, 188 home improvement purpose loans and lines of credit were extended in San Diego County low income census tracts.
3. Participation in Local Government Programs. Following the merger, we will have the capacity to participate in local government programs that leverage federal and local funds for home improvement or rehabilitation purposes. At that time, we would welcome discussions with the County of San Diego, the City of San Diego, and other municipalities within the County regarding our participation in such programs.

#### H. Small Business and Economic Development

1. Goals. As described above, BankAmerica has set a goal of average annual originations totalling \$200 million of conventional small business loans of less than \$50,000. It has also set a goal of at least \$100 million on average annually in government guaranteed and other special programs for small and micro businesses. These goals apply to the delineated communities of BankAmerica subsidiaries throughout the western states. Approximately two-thirds of the goals will be allocated to California. Using these goals as a reference, Bank of America NT&SA, prior to the merger, and Bank of America, following the merger, along with Bank of America State Bank will strive, on an ongoing basis, to originate loans in San Diego County at a level commensurate with the size of and level of needs in San Diego City and County relative to our total local community. However, our

5. Religious Organizations. Loan applications from churches often present unique characteristics that are difficult for financial institutions to evaluate. We are willing to discuss this issue under the provisions of Section III. N. as described on page 13.
6. Small Business Incubators. Small business incubators are a relatively new concept for providing a comprehensive set of services designed to foster small business development. We believe the incubator concept has a high level of potential for small business start-up, development, and growth. We also believe support of small business incubators enhances our broader role in financing small businesses and other economic development projects. We intend to continue our support for the activities of the San Diego Incubator Corporation and other incubators provided they continue to show strong potential and to achieve significant results.

- I. Use of Charitable Funds. BankAmerica's philanthropic arm, BankAmerica Foundation, will continue to use contributions and grants to enhance its CRA program. Grants and contributions to support nonprofits active in housing and economic development are relevant to CRA. We will allocate an amount equal to 10% of BankAmerica Foundation's budget or \$1 million, whichever is greater, to support these activities within the delineated communities of BankAmerica's banking subsidiaries. Using this allocation as a reference, we will provide, on an ongoing basis, charitable support to housing and economic development nonprofits providing services to San Diego County at a level commensurate with the size of and level of need in San Diego City and County relative to our total local community.

During 1990 and 1991, we pursued a strategy of building capacity within San Diego nonprofits involved in the production of low- and very low-income housing. During this period, examples of our support include a \$100,000 commitment needed to help bring Local Initiatives Support Corporation "LISC" to San Diego. We also provide LISC, the California Housing Partnership, and the San Diego Housing Federation free office space, furniture, and equipment on an on-going basis. During 1990 and 1991, we helped sponsor four San Diego County nonprofit staff persons as National Interns at the Development Training Institute in Baltimore to enhance housing development skills.

We use written guidelines for support of housing and economic development. Currently, our areas of interest are capacity-building, project support, and support for organizations dedicated to increasing resources available to community-based development organizations. We will continue to use written guidelines, and a copy of the current guidelines is attached as Exhibit 2.

We will consider San Diego a priority areas for capacity-building grants during 1992.

community. We believe you already recognize that there is no easy solution, and that the responsibility for providing banking services to underserved areas throughout our marketplace (the State of California) is not solely the responsibility of any single institution. We believe we have more branches in low-income and high minority areas than any other institution in the State, and will continue to do so after the merger. We hope you will also recognize that even after the merger, we will not be the largest financial institution in San Diego County.

Our intent is to ensure that the level of service to lower-income areas and minority dominant areas is not reduced by the merger.

The immediate concern of the merger is around consolidation of duplicate branch locations and the divestiture of branches to address competitive concerns. It is premature to discuss the opening of new branch locations, however, we will commit to exploring options for Southeast San Diego, including options with providers of other consumer services.

- L. Low-Cost Checking and Other Banking Services. Bank of America NT&SA's Limited Checking Account was designed to meet the needs of lower-income customers. For \$3.50 a month, no minimum balance, and a minimum opening deposit of only \$25, customers have full access to our services. Not only do they have a checking account, but they receive a VERSATEL card, the ability to cash checks, withdraw funds, and make deposits at any branch. A full product description of Limited Checking is attached as Exhibit 3. Following the merger, Bank of America anticipates increasing the number of checks honored without charge each month from 8 to 10.

Bank of America NT&SA offers free check cashing to all depositors. We will continue to charge market rates for cashing checks for non-customers. We believe that promoting banking relationships is in the best interest of our community, including San Diego County, and that the low cost of Limited Checking makes it affordable to everyone.

We are willing to discuss with the appropriate public officials, and to seriously consider, a program for direct deposit of public assistance checks.

- M. Training. Bank of America will provide training to its staff sufficient for the successful carrying out of our CRA plan.
- N. Regular Meetings. Bank of America NT&SA and Bank of America, as well as Bank of America State Bank, welcome the opportunity to meet regularly with a committee of representatives of the San Diego City and County agencies, including nonprofits and religious organizations, to discuss in good faith our progress toward meeting local credit needs. We will provide this committee with publicly available information regarding performance in San Diego County. We are willing to discuss at those meetings the progress of our CRA program including specific lending products and

Bank of America NT&SA/Bank of America State Bank  
San Diego County  
CRA Activity Contacts  
As of December 31, 1991

1. Senior Officer Responsible for CRA Activities

Larry Knutson  
Senior Vice President & Region Manager  
(619) 230-5100

2. Affordable Multi-Family Housing

Mitch Thompson  
Vice president  
Bank of America State Bank  
(619) 230-5421

3. Government-Guaranteed Small Business Loans

Rod Maldonado  
Vice President  
Bank of America State Bank  
(619) 230-6183

4. Conventional Small Business Loans

Jose Valez  
Vice President and District Manager  
(619) 588-3701

Fred Baranowski  
Vice President and Manager, Consumer Banking Services  
(619) 230-5200

5. Single Family Home Loans Including Neighborhood Advantage

Norm Austin  
Vice President  
(619) 230-5010

6. Consumer Loans Including Home Improvement and B.A.S.I.C Loans

Norm Austin  
Vice President  
(619) 230-5010

7. Retail Deposit Services Including Limited Checking

Judy Maudsley  
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AN ANALYSIS OF HOME  
MORTGAGE DISCLOSURE ACT  
LENDING DATA

FROM 1992-1996

Written and Researched by  
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March, 1998

## STUDY SUMMARY

This study compared home loan denial rates for African American and white applicants in San Diego County between 1992 and 1996.

Ten lending institutions were surveyed: American Savings Bank, Bank of America, Downey Savings and Loan, Glendale Federal Bank, Great Western Bank, Grossmont Bank, Home Savings, Union Bank, Wells Fargo and World Savings and Loan.

The study only looked at conventional (non-government insured) home purchase loans on 1-4 unit family dwellings in San Diego County from 1992 to 1996.

### KEY FINDINGS OF THE STUDY INCLUDE:

- \*\*\* In 1996 (the most recent year for which data is available), African American loan applications were, on average, 2.87 times more likely to be turned down than white applicants. This represents a 50 percent increase over 1992, when African Americans were only 1.91 times more likely to be turned down than white applicants.
- \*\*\* Even when the income levels of the borrower were the same, African American loan applicants were still turned down more often than whites in 1996. For example, upper income (those with incomes of greater than 120 percent of the area median) African American loan applicants at Great Western Bank were turned down 3 times more frequently than upper income white loan applicants in 1996.
- \*\*\* At Union Bank in 1996, low income (those with incomes of less than 80 percent of the area median) African American loan applicants were turned down 5.36 times more frequently than low income white loan applicants.
- \*\*\* In 1996, only 1.64 percent of all the loan applications received by the 10 lending institutions were submitted by African Americans. This represents a 12.3 percent drop in such applications compared to 1992, when 1.87 percent of all applications received from the 10 lenders came from African Americans.
- \*\*\* In terms of loans actually granted to African Americans, the numbers are worse. In 1992, the 10 lenders granted 127 conventional home purchase loans to African Americans, or 1.62 percent of their total. In 1996, these same 10 lenders granted only 70 such loans to African Americans, or 1.2 percent of their total -- a decrease of nearly 26 percent compared to 1992.
- \*\*\* According to 1990 census data (provided by the San Diego Association of Governments), African Americans represent 6 percent of the total population of San Diego County.

- \*\*\* Union Bank had the best record of attracting loan applications from African Americans in 1996. Nearly 4 percent of all their conventional home purchase loan applications in San Diego County were submitted by African Americans.
- \*\*\* Grossmont Bank had the worst record of attracting loan applications from African Americans in 1996. Out of 122 total conventional home purchase loan applications in San Diego County, none were submitted by African Americans. Glendale Federal Bank took in only two applications from African Americans in 1996, out of a total of 208.
- \*\*\* Union Bank had the worst record in terms of denying loan applications from African Americans relative to white applicants. In 1996, 42.86 percent of African American applicants were rejected, compared to 8.2 percent of white applicants, a ratio of more than 5 to 1.

All lending and loan denial data for this study was provided by the Federal Financial Institutions Examination Council and the 10 lending institutions surveyed, under terms of the Federal Home Mortgage Disclosure Act of 1975. This law requires financial institutions to publicly disclose detailed data on their mortgage lending activity every year; such as the number and type of housing loan applications by census tract, and by the race, income, and sex of the borrower. By law, institutions must indicate whether the applications taken in were approved or denied and the amount of the loan.

**PART I Combined African-American Conventional Home Purchase Loan Applications, Originations, and Denial Ratios of All Ten Lenders Surveyed - San Diego County 1992 and 1996**

Number Of Loan Applications Received

	<u>1992</u>	<u>1996</u>
County-wide Total	11,698	8,807
From African-Americans	219 (1.87% of total)	144 (1.64% of total)

Percentage of Change in African-American Applications: -12.3%

Number Of Loans Originated (Granted)

	<u>1992</u>	<u>1996</u>
County-wide Total	7,843	5,831
To African-Americans	127 (1.62% of total)	70 (1.2% of total)

Percentage of Change in African-American Loans: -25.93%

Average Disparity In Denial Ratios Between African-Americans and White Applicants

<u>1992</u>	<u>1996*</u>
1.91:1	2.87:1
[In 1992, African-American applicants were turned down 1.91 times more often than white applicants.]	[In 1996, African-American applicants were turned down 2.87 times more often than white applicants.]

Percentage of Change in Disparity in Denial Ratios: + 50.26%

\*Notes:

Even when the income level of the borrower was the same, African-Americans were still turned down more often than whites in 1996.

[Only those loans on 1 to 4 unit family dwellings were counted.]

According to 1990 census data provided by the San Diego Association of Governments, African-Americans make up 6% of San Diego county's population.

The 10 lenders:

- American Savings Bank
- Bank of America
- Downey Savings and Loan
- Glendale Federal Bank
- Great Western Bank
- Grossmont Bank
- Home Savings
- Union Bank
- Wells Fargo Bank
- World Savings and Loan

**PART I** Combined African-American Conventional Home Purchase Loan Applications,  
(cont'd) Originations, and Denial Ratios of All Ten Lenders Surveyed -  
San Diego County 1992 and 1996

Sources for lending data: Table 4-2 of each lender's 1992-1996 "Home Mortgage Disclosure Act" statements for San Diego county, and the Federal Financial Institutions Examination Council (FFIEC).

Notes: A "conventional" loan is one that is not insured by the federal government. Therefore, the risk is carried by the individual lending institution.

The number of loans originated means the number of loans actually granted by a particular lending institution.

1996 is the most recent year for which lending data was available. For Wells Fargo Bank, 1995 was the most recent year for which data was available. 1995 was the last year in which they made home loans directly. They now make home loans through a joint venture with a mortgage company.

**PART II Denial Rates on Conventional Home Purchase Loan Applications for Whites and African-Americans in San Diego County, 1992-1996 (All Income levels)-Minimum 5 applicants -Loans on 1 to 4 unit family dwellings**

Financial Institution	1992	1993	1994	1995	1996
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*American Savings Bank*

Whites:	19%	19.76%	16.44%	-11.19%	12.08%
African-Americans:	28.57%	31.25%	32.14%	43.75%	24.14%
Disparity Ratio:	1.5:1	1.58:1	1.95:1	3.91:1	2:1

[Note: A disparity ratio of 1.5:1 means that African-Americans were denied loans 1.5 times more often than white applicants.] "Conventional" means that the loan is not insured by the federal government and the lender carries the risk.

*Bank of America*

Whites:	22.98%	26.15%	18.90%	17.87%	16.14%
African-Americans:	40.24%	47.50%	24.32%	44%	46.15%
Disparity Ratio:	1.75:1	1.82:1	1.29:1	2.46:1	2.86:1

*Downey Savings and Loan*

Whites:	30.95%	32.88%	14.67%	29.66%	17.89%
African-Americans:	[*]	[*]	0%	2 Appl.	4 Appl.
Disparity Ratio:			0:1		

[\*] No Applications Submitted

*Glendale Federal Bank*

Whites:	34.38%	22.86%	12.04%	20.75%	19.44%
African-Americans:	[*]	1 Appl.	3 Appl.	3 Appl.	2 Appl.
Disparity Ratio:					

[\*] No Applications Submitted

*Great Western Bank*

Whites:	22.87%	18%	11.16%	14.43%	14.33%
African-Americans:	36.10%	33.30%	25.80%	25%	43.75%
Disparity Ratio:	1.58:1	1.85:1	2.3:1	1.73:1	3.05:1

*Grossmont Bank*

Whites:	52.94%	32.81%	22%	20.19%	12.82%
African-Americans:	[*]	[*]	1 Appl.	40%	[*]
Disparity Ratio:				1.98:1	

[\*] No Applications Submitted

**PART II Denial Rates on Conventional Home Purchase Loan Applications for Whites and African-Americans In San Diego County, 1992-1996 (All income levels)-Minimum 5 applicants -Loans on 1 to 4 unit family dwellings**

Financial Institution	1992	1993	1994	1995	1996
-----------------------	------	------	------	------	------

*Home Savings*

Whites:	8.60%	9.48%	8.70%	-12.42%	11.90%
African-Americans:	16.67%	17.10%	19.10%	32.60%	25%
Disparity Ratio:	1.94:1	1.8:1	2.2:1	2.62:1	2.1:1

*Union Bank*

Whites:	12.60%	13.30%	14.81%	8.76%	8.20%
African-Americans:	3 Appl.	42.86%	57.14%	25%	42.86%
Disparity Ratio:	-	3.2:1	3.86:1	2.85:1	5.23:1

*Note: At Union Bank, African-American applicants were turned down 5.23 times more often than white applicants in 1996. This is the highest disparity in denial rates of all the lenders surveyed.*

*Wells Fargo Bank*

Whites:	52.53%	38.59%	26.02%	26.13%
African-Americans:	66.67%	28.57%	47.06%	3 Appl.
Disparity Ratio:	1.27:1	.74:1	1.81:1	

*World Savings and Loan*

Whites:	10.66%	8.80%	8.44%	11.20%	10%
African-Americans:	36.36%	28.57%	35.71%	10%	20%
Disparity Ratio:	3.41:1	3.25:1	4.23:1	.89:1	2:1

Average denial disparity ratio between African-American and white loan applicants:

1992) 1.91:1  
1996) 2.87:1

In 1992, African-Americans were (on average) 1.91 times more likely to be turned down for a home loan than whites. In 1996, African-Americans were (on average) 2.87 times more likely to be turned down for a conventional home purchase loan than whites, a 50.26% increase over 1992.

Sources for lending data: Table 4-2 of each lender's 1992-1996 "Home Mortgage Disclosure Act" statements for San Diego county, and the Federal Financial Institutions Examination Council (FFIEC).

Note: 1996 is the most recent year for which information is available. 1995 was the last year Wells Fargo offered home loans.

**PART III 1996 Denial Rates on Conventional Home Purchase Loans When Borrower Income Levels are the Same : Loans on 1 to 4 Unit Family Dwellings (minimum 5 applications)**

<u>Financial Institution</u>	<u>"Low" Income Borrowers</u>	<u>"Upper" Income Borrowers</u>
<i>American Savings Bank</i>		
Whites:	14.29%	10.98%
African-Americans:	60%	15.38%
Disparity Ratio:	4.2:1	1.4:1
<i>Bank of America</i>		
Whites:	26.36%	11.64%
African-Americans:	3 Appl.	33.30%
Disparity Ratio:		2.86:1
<i>Downey Savings and Loan</i>		
Whites:	15.22%	15.71%
African-Americans:	2 Appl.	1 Appl.
<i>Glendale Federal Bank</i>		
Whites:	26.67%	15.12%
African-Americans:	2 Appl.	0 Appl.
<i>Great Western Bank</i>		
Whites:	20.24%	12.34%
African-Americans:	63.64%	38.46%
Disparity Ratio:	3.14:1	3.12:1
<i>Grossmont Bank</i>		
Whites:	35%	4.44%
African-Americans:	0 Appl.	0 Appl.
<i>Home Savings</i>		
Whites:	18.45%	9.13%
African-Americans:	50%	20%
Disparity Ratio:	2.71:1	2.19:1
<i>Union Bank</i>		
Whites:	8.47%	6.80%
African-Americans:	45.45%	3 Appl.
Disparity Ratio:	5.36:1	

**PART III 1996 Denial Rates on Conventional Home Purchase Loans When Borrower Income Levels are the Same : Loans on 1 to 4 Unit Family Dwellings (minimum 5 applications)**  
 (cont'd)

<u>Financial Institution</u>	<u>"Low" Income Borrowers</u>	<u>"Upper" Income Borrowers</u>
<i>Wells Fargo (1995 data)</i>		
Whites:	50%	17.19%
African-Americans:	1 Appl.	0 Appl.
<i>World Savings and Loan</i>		
Whites:	14.89%	9.87%
African-Americans:	3 Appl.	28.57%
Disparity Ratio:		2.89:1

Note: Four lending institutions denied low income African-American loan applicants more frequently than low income white applicants: American Savings, Great Western Bank, Home Savings and Union Bank. Also, 5 lending institutions denied upper income African-American loan applicants more frequently than upper income white loan applicants: American Savings, Bank of America, Great Western, Home Savings and World Savings and Loan.

Sources: Table 5-2 of each lender's 1996 Home Mortgage Disclosure Act Statements for San Diego County and the Federal Financial Institutions Examination Council (FFIEC).

"Low Income": 0 - 80% of area median income (\$38,880 or less)

"Upper Income": 120% or more than area median income (\$58,320 or more)

According to the US Department of Housing and Urban Development (HUD), the 1996 San Diego County median income (for a family of 4) was \$48,600.

The term "median" means that 50% are above that level and 50% are below that level

(Note: HUD sets the limits for the various income levels.)

**PART IV Conventional Home Purchase Loan Applications in San Diego County, 1992-1996 (Loan applications on 1 to 4 unit family dwellings) - Number submitted by African-Americans**

<u>Financial Institution</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
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*American Savings Bank*

Total Applications Submitted:	562	529	1,294	1,437	1,871
Total by African-Americans*:	7	16	28	32	29
* Percentage of Total Submitted:	1.25%	3%	2.16%	2.23%	1.55%

*Bank of America*

Total Applications Submitted:	3,742	2,303	2,489	1,231	1,638
Total by African-Americans*:	82	40	37	25	26
* Percentage of Total Submitted:	2.19%	1.74%	1.49%	2%	1.59%

*Downey Savings and Loan*

Total Applications Submitted:	54	91	528	180	491
Total by African-Americans*:	0	0	6	2	4
* Percentage of Total Submitted:	0%	0%	1.14%	1.1%	0.81%

*Glendale Federal Bank*

Total Applications Submitted:	120	88	252	167	208
Total by African-Americans*:	0	1	3	3	2
* Percentage of Total Submitted:	0%	1.14%	1.19%	1.8%	0.96%

*Great Western Bank*

Total Applications Submitted:	1,818	1,653	2,101	2,008	1,696
Total by African-Americans*:	36	42	31	44	32
* Percentage of Total Submitted:	1.98%	2.54%	1.48%	2.19%	1.89%

*Grossmont Bank*

Total Applications Submitted:	59	84	174	181	122
Total by African-Americans*:	0	0	1	5	0
* Percentage of Total Submitted:	0%	0%	0.57%	2.76%	0%

*Home Savings*

Total Applications Submitted:	3,023	3,001	3,505	2,229	1,495
Total by African-Americans*:	60	76	89	46	24
* Percentage of Total Submitted:	1.98%	2.53%	2.54%	2.06%	1.60%

**PART IV Conventional Home Purchase Loan Applications In San Diego County, 1992-1996 (Loan applications on 1 to 4 unit family dwellings) - Number submitted by African-Americans**  
(cont'd)

Financial Institution	1992	1993	1994	1995	1996
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*Union Bank*

Total Applications Submitted:	168	275	328	381	353
Total by African-Americans*:	3	7	14	16	14
* Percentage of Total Submitted:	1.79%	2.55%	4.27%	4.2%	3.97%

*Wells Fargo*

Total Applications Submitted:	278	440	1,255	198	-
Total by African-Americans*:	9	7	51	3	-
* Percentage of Total Submitted:	3.24%	1.59%	4.06%	1.52%	-

*World Savings and Loan*

Total Applications Submitted:	1,874	1,428	1,764	989	735
Total by African-Americans*:	22	14	28	20	10
* Percentage of Total Submitted:	1.17%	0.98%	1.59%	2.02%	1.36%

Note: According to the 1990 Census of Population and Housing, African-Americans make up 6% of the total population of San Diego County. Source: San Diego Association of Governments - SANDAG

Sources for lending data: Table 4-2 of each lender's 1992-1996 "Home Mortgage Disclosure Act" statements for San Diego county, and the Federal Financial Institutions Examination Council (FFIEC).

**PART V Conventional Home Purchase Loan Originations In San Diego County, 1992-1996**  
**(Loan originations on 1 to 4 unit family dwellings) - Number of loans originated (granted)**  
**to African-Americans**

<u>Financial Institution</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
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*American Savings Bank*

Total Loans Originated:	362	323	878	971	1,356
Total to African-Americans*:	4	11	17	9	16
*Percentage of Total Originated:	1.10%	3.40%	1.94%	0.93%	1.18%

*Bank of America*

Total Loans Originated:	2,458	1,418	1,705	738	1,076
Total to African-Americans*:	47	18	26	10	12
*Percentage of Total Originated:	1.91%	1.27%	1.52%	1.36%	1.12%

*Downey Savings and Loan*

Total Loans Originated:	28	51	393	108	337
Total to African-Americans*:	0	0	6	2	4
*Percentage of Total Originated:	0%	0%	1.53%	1.85%	1.19%

*Glendale Federal Bank*

Total Loans Originated:	60	49	173	100	115
Total to African-Americans*:	0	0	1	2	0
*Percentage of Total Originated:	0%	0%	0.58%	2%	0%

*Great Western Bank*

Total Loans Originated:	1,054	1,038	1,457	1,284	1,055
Total to African-Americans*:	19	20	18	25	11
*Percentage of Total Originated:	1.80%	1.93%	1.24%	1.95%	1.04%

*Grossmont Bank*

Total Loans Originated:	21	42	82	91	73
Total to African-Americans*:	0	0	0	2	0
*Percentage of Total Originated:	0%	0%	0%	2.2%	0%

*Home Savings*

Total Loans Originated:	2,340	2,227	2,539	1,472	1,017
Total to African-Americans*:	43	45	56	24	13
*Percentage of Total Originated:	1.84%	2.00%	2.20%	1.63%	1.28%

**PART V** Conventional Home Purchase Loan Originations in San Diego County, 1992-1996  
 (cont'd) (Loan originations on 1 to 4 unit family dwellings) - Number of loans originated (granted) to African-Americans

Financial Institution	1992	1993	1994	1995	1996
<i>Union Bank</i>					
Total Loans Originated:	110	165	224	283	244
Total to African-Americans*:	1	3	5	11	7
*Percentage of Total Originated:	0.90%	1.82%	2.23%	3.89%	2.87%
<i>Wells Fargo Bank</i>					
Total Loans Originated:	103	234	723	83	-
Total to African-Americans*:	3	5	21	1	-
*Percentage of Total Originated:	2.91%	2.14%	2.90%	1.20%	-
<i>World Savings and Loan</i>					
Total Loans Originated:	1,307	1,012	1,308	679	475
Total to African-Americans*:	10	6	14	12	6
*Percentage of Total Originated:	0.77%	0.59%	1.07%	1.77%	1.26%

Note: According to the 1990 Census of Population and Housing, African-Americans made up 6% of San Diego County's total population. Source: SANDAG / San Diego Association of Governments.

Sources for lending data: Table 4-2 of each lender's 1992-1996 "Home Mortgage Disclosure Act" statements for San Diego county, and the Federal Financial Institutions Examination Council (FFIEC).

## METHODOLOGY

### 1. How the loan denial rates and the denial disparity ratios were computed:

Example: If lender "A" receives 20 loan applications from African-Americans and denies 6 of those applications, 20 divided by 6 results in a 30% denial rate.  
If the same lender rejects 10 out of 100 loan applications from white borrowers, the result is a 10% denial rate.

To compute the disparity ratio, the African-American denial rate of 30% is divided by the white denial rate of 10% to result in a 3:1 disparity ratio. This means lender "A" denied African-American loan applicants 3 times more often than white loan applicants.

### 2. Source of lending data used in this survey: each lender's 1992, 1993, 1994, 1995 and 1996 HMDA ("Home Mortgage Disclosure Act") statements for San Diego County. Data obtained via written request to each of the 10 lending institutions included in this survey.

Each year a government agency named the Federal Financial Institutions Examinations Council (FFIEC) compiles a HMDA statement for virtually every lending institution in the country. These statements are available to interested members of the public and can be obtained from individual lending institutions or can be ordered directly from FFIEC.

Source for all census data used in this survey: San Diego Association of Governments / SANDAG.

### 3. Ten Lenders Surveyed:

American Savings Bank	Grossmont Bank
Bank of America	Home Savings
Downey Savings and Loan	Union Bank*
Glendale Federal	Wells Fargo**
Great Western Bank	World Savings and Loan

\* Union Bank had the best record of all ten lenders surveyed in terms of receiving loan applications from and granting loans to African-Americans in San Diego County. The percentage of Loan applications received from African-Americans increased substantially between 1992 and 1996; as did the number of loans granted to this community. However, the disparity in denial rates between African-Americans and white applicants also increased substantially between 1992 and 1996, regardless of borrower income level.

\*\* Wells Fargo-1995 was the most recent year for which lending data was available. 1995 was the last year Wells Fargo made home loans directly. They now make home loans through a joint-venture with a mortgage company. For the other nine lenders, 1996 was the most recent year for which data was available.

# ATTACHMENT 3

**CITY-COUNTY REINVESTMENT TASK FORCE  
LENDERS ACTIVITY SUMMARY  
SAN DIEGO COUNTY - FY 1996**

	Bank of America					Wells Fargo Bank					Union Bank of CA				Great Western Bank		Grossmont Bank		Comerica Bank		Borrego Springs	
	Goal	Actual				Goal	Actual				Goal	Actual			Goal	Actual	Goal	Actual	Goal	Actual		
		93	94	95	96		93	94	95	96		94	95	96		95	96		96		96	
Home Purchases in Low Income Census Tracts	\$40M	\$34.3M	\$31.3M	\$25.8M	\$35.9M	\$6M	\$10.7M	\$37.8M	N/A	N/A	\$15M	\$14.7M	\$7.3M	\$10.47M	\$35.09M	\$229K	\$58K	\$216K	\$441K	\$0		
Affordable Housing Development	\$8M	\$88.2M	\$1M	\$43.9M	\$27.5M	\$6M	\$33.1M	\$6.8M	\$10.6M	\$2.9M	\$8M	\$0	\$0	\$0	\$9.7M	\$9.86M	\$20K	\$100K	\$0	\$1.05K		
Small Business Loans *Gov't Guaranteed *Conventional	\$5.3M \$10.7M	\$3.9M \$100M	\$5.9M \$10.9M	\$9.9M \$16.4M	\$10.8M \$89.1M	\$3M \$6M	\$4.3M \$15.3M	\$6.6M \$24.4M	\$15.3M \$45.8M		\$25M \$10M	\$30.9M \$8.6M	\$22.1M N/A	\$38.8M \$6.2M	N/A N/A	N/A N/A	\$85K \$16.1M	\$13.5M \$53.7M	\$1.7M \$3.86M		\$7.93M N/A N/A	
Commercial Construction	N/A	N/A	N/A	N/A	\$18M	\$8M	\$3.6M	\$3.57M	\$12.1M	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$3.5M	\$143K	\$0		N/A	
Consumer Loans	\$640K	\$800K	\$22.6M	N/A	\$27.6M	\$1M	\$105K	N/A	\$6.3M	79.2M	\$8M	\$5.5M	\$8.4M	\$6.65M	N/A	N/A	\$1.2M	\$1.06M	\$837K		N/A	
Corporate Giving	\$100K	\$100K	\$100K	\$257K	\$80K	\$1.5M	N/A	N/A	\$341K	1.02M	\$500K	N/A	\$436K	\$526K	\$278K	\$437K	\$12K	\$41.8K	\$6.1K		N/A	
Special Support	<ul style="list-style-type: none"> <li>* High Levels of Home Mortgage Lending</li> <li>* Non-Profit Credit Lines</li> </ul>					<ul style="list-style-type: none"> <li>* Neighborhood Nat'l Bank</li> <li>* ACCION, San Diego</li> <li>* Non-Profit Federation</li> </ul>					<ul style="list-style-type: none"> <li>* Neighborhood BanCorp</li> <li>* Church Loans, Low Cost</li> <li>* Support to Variety of Non-Profits</li> </ul>				<ul style="list-style-type: none"> <li>* San Diego Partners Program</li> <li>* Continued Use of Minority Media</li> <li>* Access to REO Lists</li> </ul>		<ul style="list-style-type: none"> <li>* NHR Homebuyers Program</li> <li>* Concession Center</li> <li>* Small Business Loans</li> <li>* Bankers Small Business CDC</li> <li>* Variety of Non-Profits Support</li> </ul>		<ul style="list-style-type: none"> <li>* CA CRC</li> <li>* Bankers Small Bus. CDC</li> <li>* CEDLI (econ. dev. loans)</li> </ul>		<ul style="list-style-type: none"> <li>* Neighborhood Nat'l Bank</li> <li>* Bankers Sm. Bus. CDC</li> </ul>	

# ATTACHMENT 4

HMDA

**Home Mortgage Lending: Minority / LMI (<120%)  
Percent of Market Share**

	<b>92</b>	<b>93</b>	<b>94</b>	<b>95</b>	<b>96</b>
<b>BofA</b>	37.79%	11.57%	11.68%	7.34%	10.91%
<b>Union</b>	2.68%	1.68%	1.53%	2.68%	1.89%
<b>Wells</b>	3.09%	1.39%	11.54%	1.26%	0.18%
<b>Home</b>	23.98%	27.90%	24.67%	17.99%	9.47%
<b>American</b>	4.82%	2.71%	11.38%	11.99%	13.21%
<b>Gr. West.</b>	23.67%	18.77%	14.31%	22.00%	10.88%

# ATTACHMENT 5

**MID-CITY SMALL BUSINESS CREDIT  
NEEDS ASSESSMENT**

**September, 1997.**

**BY: Ann Meier, Independent Research Consultant**

**This study is sponsored by the City of San Diego Office of Small Business, Council Member Christine Kehoe's Office, Bank of America, Union Bank of California, Wells Fargo and the Business Improvement Districts of Adams Avenue, El Cajon Boulevard, North Park and City Heights. Project oversight was provided by the San Diego City-County Reinvestment Task Force.**

City of San Diego was conducted by David Paul Rosen & Associates, Community Development Consultants from Irvine. This study used an interesting methodology of applying actual banking industry norms as reflected in measures published by Robert Morris & Associates (RMA) to the 1991 City business license database. The authors of this report note that their estimates of credit demand do not reflect very small businesses with sales below \$50,000 which are very difficult to quantify. A large proportion of the small businesses in the Mid-City fall into this category and thus were not covered by this 1992 report. Also in 1992, the San Diego City-County Reinvestment Task Force completed a credit needs assessment in Spring Valley. In 1993 Adams Avenue conducted a credit needs assessment and reported on barriers to small business capital formation. In 1994 City Heights developed a Business and Economic Development Plan based on a survey. While not exclusively a credit needs assessment, some measures of credit need were addressed. The Mid-City Business Improvement Districts and the San Diego City-County Reinvestment Task Force decided a credit needs assessment was needed to measure the current situation in a broader scope, encompassing more of the Mid-City. That is the purpose of this study.

### *Survey Methodology*

The survey incorporated questions asked in many of the studies mentioned above as well as similar studies in other cities across the nation. The contents of the questionnaire were reviewed and revised by the BIDs, Reinvestment Task Force members, and officials from Wells Fargo, Union Bank of California, and Bank of America (see Appendix A).

The questionnaire was sent to approximately 3500 Mid-City small businesses (which did not include apartment owners). Approximately 1000 of these surveys were "returned to sender." This high volume of returns indicates several things. The mailing list used for the survey came from San Diego Data Processing whose database is apparently not current. The return volume may also indicate a high rate of small business failure or relocation in the Mid-City. It is likely that many, if not most, of the business whose surveys were "returned to sender" were once, but are no longer in business or have moved.

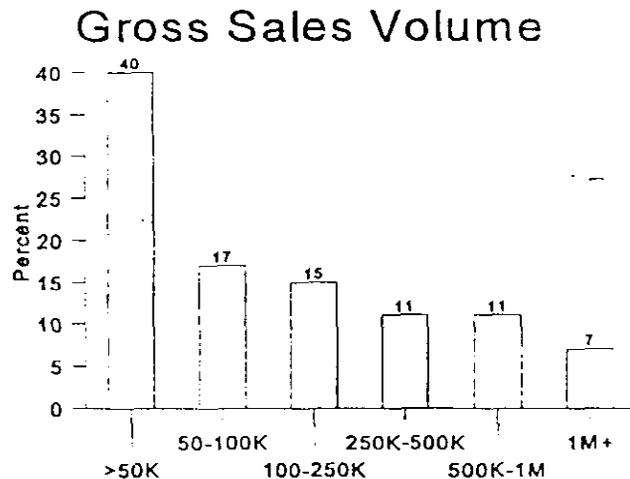
Excluding the returned surveys, approximately 2500 surveys reached the correct owner of a currently operational small business. 183 small business from four BIDs (Adam's Avenue, El Cajon, North Park and City Heights) responded to the survey. The survey responses were supplemented with two focus groups with BID committee members. These focus groups allowed us to solicit more in-depth information and to ensure the clarity of the survey instrument. Although the survey was in English, a volunteer from UPAC canvassed the neighborhoods to assist non-English speaking business owners with the survey. The data from the UPAC volunteer, the two focus groups and the survey responses were compiled to report on the credit needs of small businesses in San Diego's Mid-City. Because of project financial constraints, we were not able to mail survey pre-notification letters, reminder post-cards, or conduct a survey remaining to non-responders. These steps usually increase the survey response rates. We did,

land use issues. The way that commercial strips are zoned in the Mid-City prevents business owners from having larger square footage for their stores and from physically expanding their business at their current site. The commercial linear strips are restricted by the size of the buildings on them which are currently mostly older, small structures. This may explain the small median square footage of small businesses in the Mid-City and indicate a need for creative solutions regarding land-use in the Mid-City.

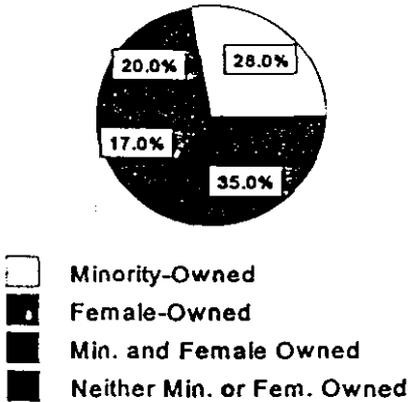
Most of respondents lease, rather than own their business location -- 76 and 24 percent respectively. When we look at the age of the businesses who lease versus those who own their business location, we find that as age of the business increases, so does ownership of the business location. Among respondents who have been in their current business for under four years, 87 percent lease their location and just 13 percent own. For respondents who have been in their business for four to ten years, 77 percent lease and 23 percent own their locations. For those in their current business for 11 to 20 years, 71 percent lease and 29 percent own the location. Finally, for those who have been in their current business for more than 20 years, 41 percent still lease their location and 59 percent own it. While more of the older business own their properties, a significant percent (41%) still lease the location.

About half of the responding business owners said they live in the Mid-City (49%) and half live outside of the Mid-City (51%). Most of the respondents own "smaller" small businesses with 76 percent of them employing 3 or fewer full-time employees and 87 percent employing 3 or fewer part-time employees. Forty-nine percent actually do not have any part-time employees. The businesses employ more people from the Mid-City (55%) than they do from outside of the Mid-City area (45%). For the 183 respondents, a total of 495 Mid-City residents are employed by businesses local to them. This is important and could stand to be higher because the unemployment rate in the Mid-City is two-time what it is in other parts of the city. Small businesses in Mid-City are a main source of employment for local residents.

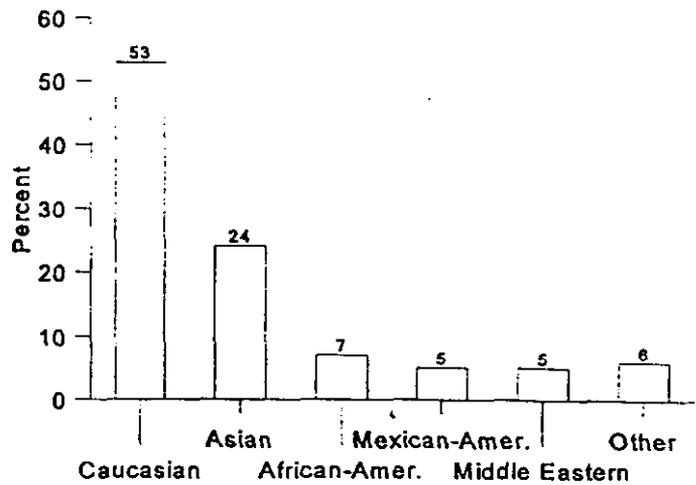
When asked their gross sales volume last year, 40 percent of all respondents said they grossed less than \$50,000. 17 percent grossed between \$50,000 and \$100,000, 15 percent between \$100,000 and \$250,000, and 10 percent each between \$250,000 and \$500,000 and \$500,000 and one million. 7 percent reported grossing over one million dollars.



## Gender & Minority Status of Respondents

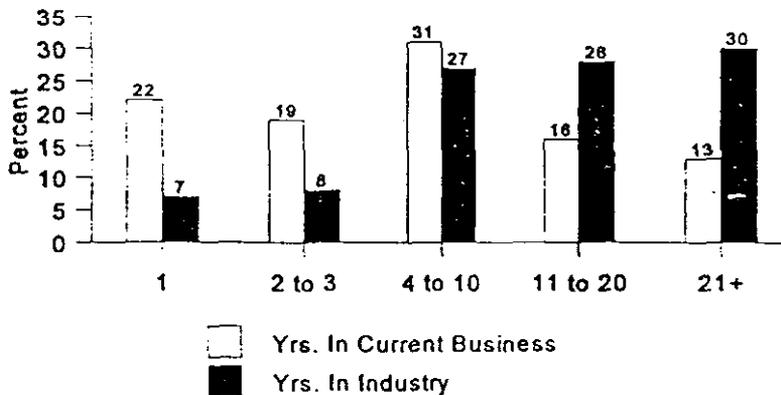


## Ethnicity of Respondents

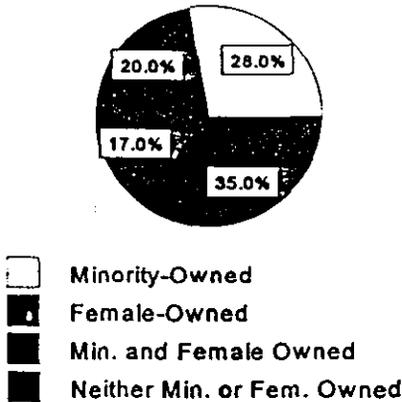


Businesses in the Mid-City are of all different ages. Thirty-one percent of business owners have owned their current business for 4 to 10 years, while another 22 percent have owned their current business for just one year. Nineteen percent have owned their business for 2-3 years, 16 percent for 11-20 years and 13 percent for more than 20 years. In contrast, most of the business owners have been in their industry longer than they have owned their current business. A large percentage of owners have been in the industry more than 20 years (30 percent). Twenty-eight percent have been in the industry 11-20 years and another 27 percent for 4-10 years. Only 8 percent are new to the industry (2-3 years) and 7 percent are rookies (only one year in the industry). The median number of years respondents have owned their business is 5 years, but the median number of years in the industry is 14. While many owners are apparently new to their current business, few are naive to their industry, products, customer base and challenges faced in financing a businesses' growth and development.

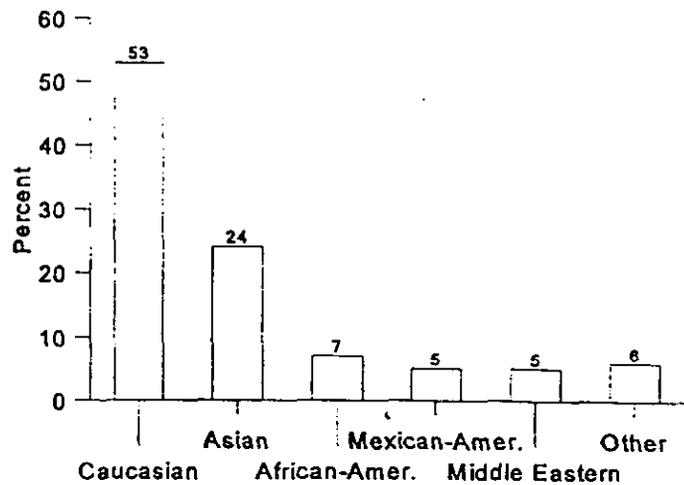
## Yrs. Owning Business Versus Yrs. In The Industry



## Gender & Minority Status of Respondents

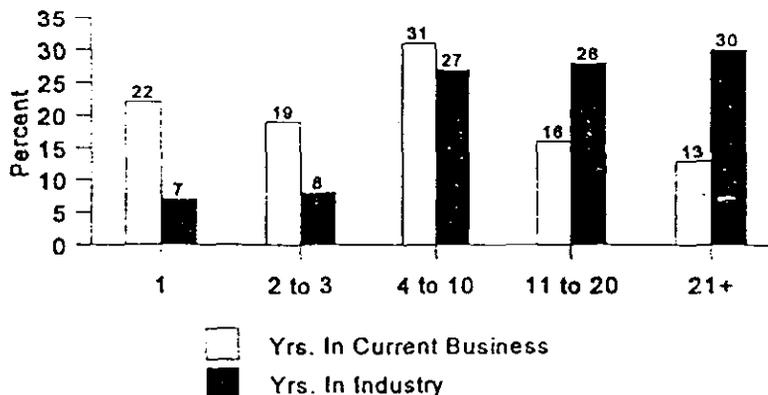


## Ethnicity of Respondents



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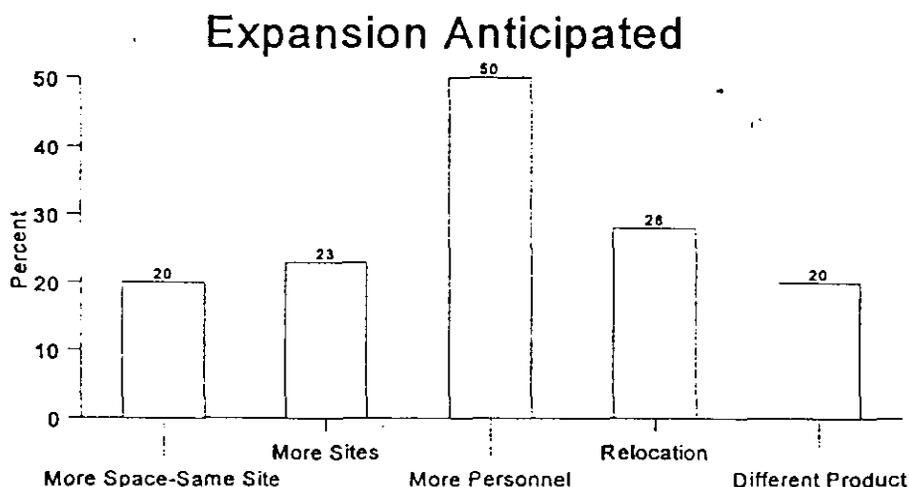
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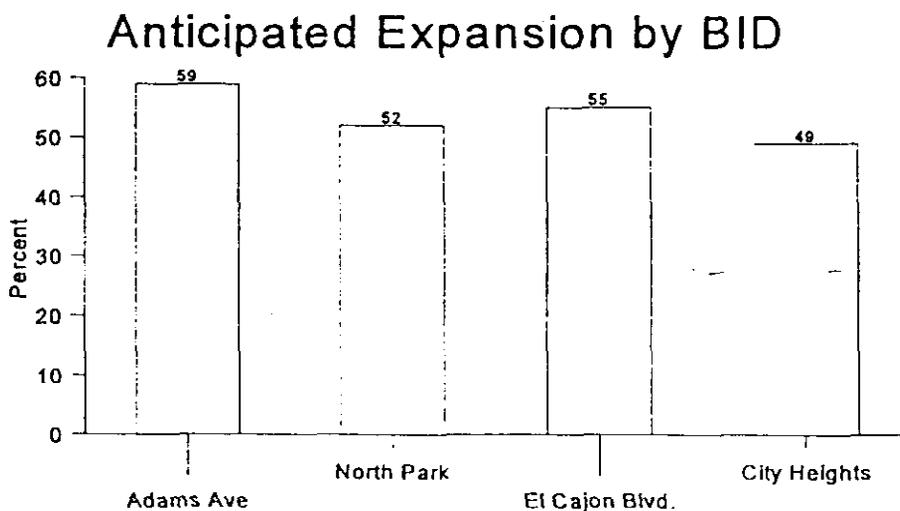
Small businesses in the Mid-City are serving the local community as well as bringing outside customers into the community. Forty-two percent of the respondents said most of their business comes from outside of the Mid-City while 58 said most of their business comes from local customers.

### *Mid-City Business Expansion*

Respondents were asked if expansion of their business was anticipated within the next year. Fifty-four percent of respondents reported expected expansion in the next year. Of those who anticipate expansion in the next year, 50 percent plan on adding additional personnel, 28 percent on relocating for additional space, 23 percent hope to secure more space at additional locations, 20 percent plan on more space at their present site and 20 percent plan on adding a new product to their business.



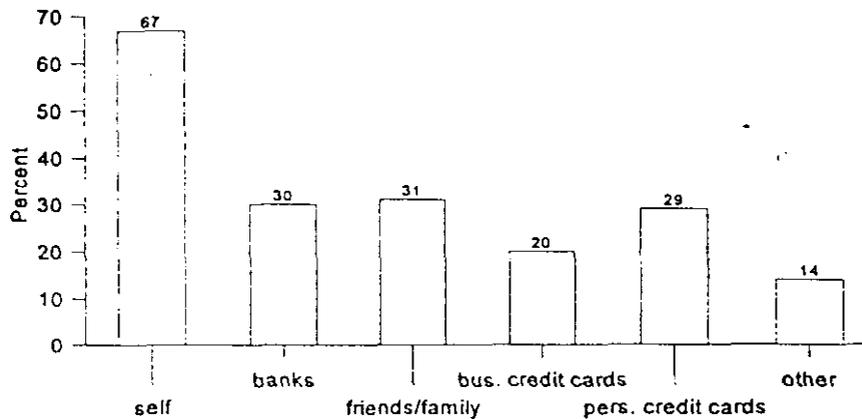
Fifty-nine percent of Adams Avenue respondents said they anticipated expansion compared to 52 percent in North Park, 55 percent in El Cajon and 49 percent in City Heights.



## Financing Growth and Development

Next, business owners were asked how they finance the growth and development of their business. An overwhelming 67 percent of respondents said they finance their business out-of-pocket. Thirty-one percent say they use loans from family or friends and 30 percent said they use bank credit. Twenty-nine percent use personal credit cards and only 20 percent use business credit cards. Very small percentages use finance companies (5%), credit unions (4%), thrifts (1%) and other investors (4%).

### Financing Growth and Development



Ethnicity seemed to have some effect on how small business owners chose to finance growth and development of their businesses. While 53 percent of responding business owners are Caucasian, a higher percentage (59%) of those who report using bank credit are Caucasian. Asians are 24 percent of our total respondent population, but just 19 percent of those who use bank credit. African-Americans are 7 percent of our respondent population, but just 4 percent of those who use bank credit. The converse is also true -- while Asians were 24 percent of our respondent population, they are 33 percent of those who use loans from friends or family. On this measure, Caucasians drop to 36 percent. More Caucasian business owners finance growth and development out of their own pocket (61%) and less Asians use this method of financing (17%). Other ethnicities follow the same pattern Asians on this measure -- proportionally fewer African-Americans, Mexican-Americans, and Middle Easterners finance their business out of pocket. Caucasian and Middle-Eastern business owners use both personal and business credit cards at a high rate than do African-Americans, Mexican-Americans and Asians.

When asked why they use the bank(s) that they do, most respondents had multiple reasons. The reason that was listed by the most respondents was location (59%) followed by convenience (47%), quality of service (33%) and cost (15%). Variety of services/products scored the lowest with just 7 percent.

Respondents were asked what business services they use at their banks and the amount of their monthly service charge. Then they were asked if they felt that their business was getting a good value for their monthly service charge. The median monthly service charge of all who answered this question was \$12.00. The largest percentage of respondents pay between \$1.00 and \$10.00 per month (21%). Sixteen percent pay no monthly service charge. The services used by most businesses are deposits (86%), bank cards (26%), night drop (14%), and payroll services (8%). A majority of respondents feel that they are getting a good value for the monthly service charge they pay (56%).

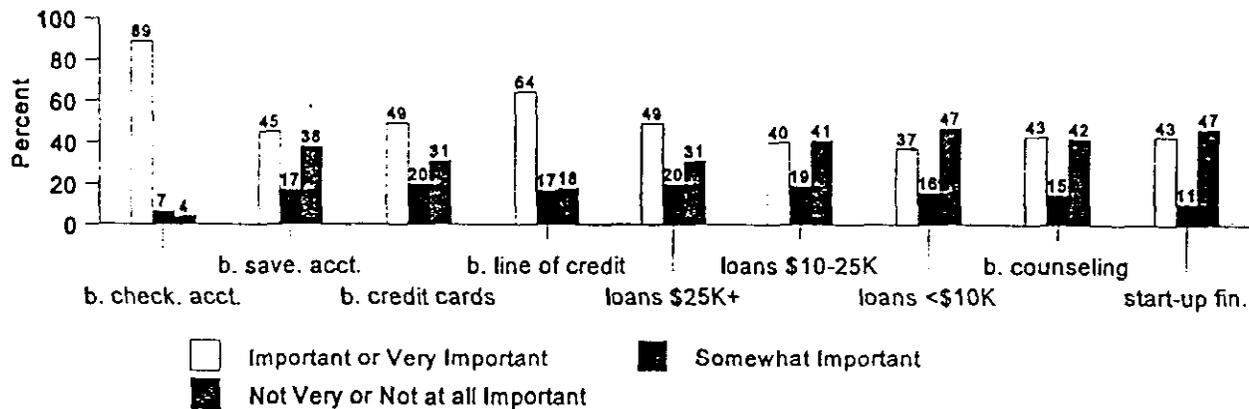
The Mid-City has suffered from many recent branch closures. Almost a third (28%) of respondents said they bank has changed sites over the last two years, and for most of the businesses reporting that their branch had closed, this made their bank less accessible (73%). Accordingly, 37 percent of all respondents, even those whose branch has not closed feel that the quality of services at their bank has changed because of branch closures. Thirty-five percent say they don't know why their bank has changed sites indicating banks that close branches in the Mid-City need to better communicate the reasons for closing. Twenty percent of all respondents said they have changed banks in the last 2 years. When asked why, many responded that the service at their bank has declined -- longer lines, frequent employee turn-over, or less interest in the businesses in the community.

Next, respondents were asked about specific services and products offered to small businesses by banks and other financial institutions. The following are the products and services we asked about:

1. Business Checking Account
2. Business Savings Account
3. Business Credit Cards
4. Business Line of Credit
5. Business loans for \$25,000 or more
6. Business loans for \$10,000 to \$25,000
7. Business loans for under \$10,000
8. Accounts receivable loans
9. Loans for machinery and equipment
10. Real Estate loans for business facility
11. Venture Capital/Equity
12. Business counseling and referral services
13. Financial statement preparation
14. Financing for business start-ups
15. Credit cards

All respondents were asked to rate the importance of the products and services to them. Eighty-nine percent of all who responded said business checking accounts were important or very important to them. Only 4 percent rated them as not very or not at all important. For business saving accounts, 45 percent rated them as important or very important, 17 percent said somewhat important, and a high 38 percent said business savings accounts are not very or not at all important. For business credit cards there was a split as well with 49 percent saying they were important or very important, 20 percent saying they were somewhat important and another 31 percent saying not very or not at all important.

## Level of Importance of Products and Services



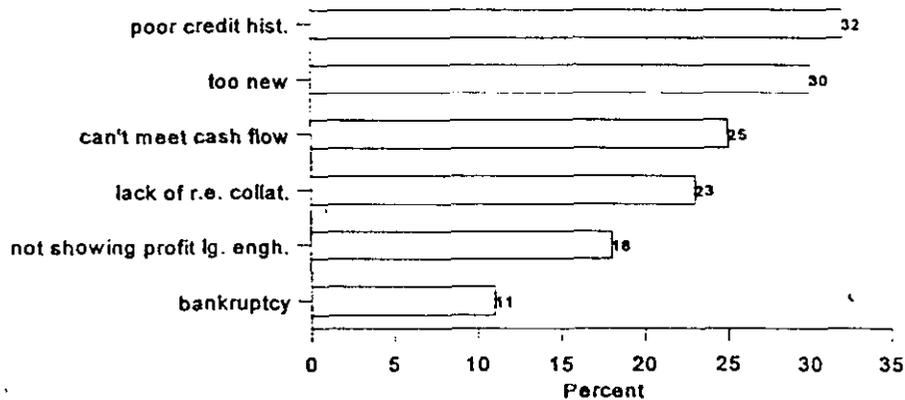
When rating the importance of business lines of credit and the three different loan amount categories, business lines of credit had the highest percentage of respondents reporting that they were important or very important to them (64%). Forty-nine percent of those responding said loans for over \$25,000 are important or very important and 40 percent said loans for \$10,000 to \$25,000 are important or very important to them. Thirty-seven percent of those responding said smaller loans, those under \$10,000, are very important or important to them. Business counseling and referral was rated as very important or important by 43 percent of those responding as was financing for start-ups.

### *Loan Application Experiences*

A majority of respondents have not made any business loan applications in the past three years (57%). Twenty-three percent have made one loan application in the past three years, 7 percent have made two, 6 percent made three and 7 percent made more than three loan applications in the past three years. Of those who made at least one loan application in the past three years, 73 percent have been denied a business loan. Arthur Anderson's Enterprise Group reports a business loan denial rate of just 23 percent nationwide and 34 percent in the western region. The

(25%), "not showing profit long enough" (18%), and "bankruptcy" (11%).

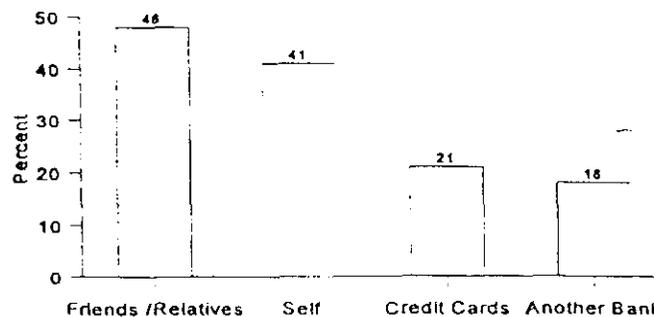
### Reasons Given for Loan Denial



For those denied loans, most were requesting the loan for working capital (56%). The second most common intent for use of the loan was real estate purchase (17%). Thirty percent of those denied were requesting small to mid-sized loans between \$5000 and \$15,000 and 35 percent were requesting large loans over \$50,000. The median loan request was \$25,000.

For almost all of those denied, the bank who denied them did not discuss any alternative lending sources with the business owner. Forty-eight percent of respondents turned to their friends and relatives when denied a loan and 41 percent relied on themselves to come up with the funding they needed. Twenty-one percent used their credit cards to finance their growth and development after they were denied a bank loan and 18 percent went to another bank. Nearly all of those who were denied a loan would have accepted a loan at a higher price, but still lower than a credit card if the bank would have offered such a loan (79%). Sixty-two percent of all respondents said they would attend seminars on how to get credit for their businesses if such seminars were offered by a local bank.

### Where Did You Turn When Denied a Loan



Some respondents felt that banks could improve their level of services by lowering the cost of services, adding personnel and branches. One respondent suggested that banks "open more teller services or windows to avoid long lines every day." Another thinks banks should create "more locations in neighborhood areas with parking. Small sub-branches would be fine." A third respondent said banks need to "stop all the take overs (friendly and hostile) and stop raising fees to finance mergers, take overs and grocery store banks."

Several respondents suggested that banks develop more specialized programs for the "smaller" small businesses. One respondent said that Mid-City small businesses would benefit greatly by banks "... offering services to small businesses with just a handful of employees. Some small business programs [currently] are for 100 and under employees, or loans of maybe \$250,000 and over ... us little guys need our own programs." Several other respondents recommended a locally owned bank, more specialized for businesses. One North Park respondent felt that "business owners need a business bank in North Park. This could work as a small credit union does, with shares." While credit unions do not offer business loans, the concept of community banking embraced by credit unions is coveted by small businesses in the Mid-City. Based on the responses given, respondents feel that banks need to make improvements in credit accessibility, personal banking relationships, quality of services, and programs specifically for "small" small businesses.

### *The Mid-City Population*

The City of San Diego's Economic Development Division found some interesting statistics about the general population of the Mid-City. The median household income in the Mid-City is more than \$10,000 less than it is city-wide, \$22,586 and \$33,686, respectively. The percent of single parent households in the Mid-City is 16 percent compared to just 9 percent city-wide. Eighteen percent of Mid-City households receive public assistance compared to 9 percent of households city-wide. Twenty-three percent of the families in the Mid-City live below the poverty line while that same measure is 13 percent city-wide. The percentage of unemployment in the Mid-City is 10 percent and 6 percent in the whole city. Twenty-four percent of all Mid-City residents have only a high school diploma and city-wide this number is 20 percent. Nineteen percent of all Mid-City residents are without vehicles and 10 percent of residents city-wide don't have their own transportation. City-wide 6 percent of households are without an adult who speaks English. That percentage jumps to 11 percent for the whole city. Twenty-five percent of all Mid-City residents and 21 percent of all resident city-wide are foreign born. Although these are stark differences, many feel that they are a bit conservative and the actual differences are even greater.

closed branches as did the personal banking relationship the business owners relied on to get fair consideration for financing. Small business owners in the Mid-City want banks to get to know them and their businesses. Only through a personal banking relationship can a loan officer recognize that a high level of personal debt is attributable to investment in one's business or that a business employs four Mid-City residents who may have otherwise been unemployed but are, instead, depositing their paychecks in an account at the loan officer's bank. Most of the businesses in the Mid-City are seeking credit because they are doing well, and want to expand (53%), not because they are failing and need to save their business. Making credit available not only allows the businesses to grow but it also facilitates Mid-City employment growth and ultimately economic growth. A personal banking relationship allows branch managers and loan officers to assess the whole business, the business owner, and the potential for positive effects on the community.

According to the statistics provided by the City of San Diego's Economic Development Division, we see that there is a need for local job creation in the Mid-City area. Credit extensions to small businesses would likely result in job creation and hopefully diminish the great disparities in unemployment and economic well-being between Mid-City residents and the city-wide.

*A "second look" policy should be established by all existing lenders in the Mid-City area to reduce the loan denial rate.*

The loan denial rate among respondents was 73 percent compared to just 23 percent nationwide and 34 percent in the western region. The businesses responding were not financially weak with most reporting assets exceeding liabilities. Existing lenders in the Mid-City are not lending to viable, stable small businesses enough. The establishment of a geographic, branch-based, second look policy for loans denied using credit scoring methods may reduce the exorbitant rejection rates.

*Efforts to establish additional banking facilities which address small business credit needs, such as a community bank in the Mid-City, should be endorsed and pursued by all relevant agencies.*

It is clear from the data in this report that Mid-City small businesses have been impacted by branch closures which have occurred over the past five years. The impacts range from a perceived lack of services to disparate treatment in credit granting procedures. Further, there is ample evidence to suggest that there is a residential and small business deposit base adequate to support additional branches.

The implementation of this item can occur in a range of forums. The City-County Reinvestment Task Force should advocate to lenders working in partnership with the Task Force to establish new branches in the Mid-City.

A joint effort by the Mid-City Business Associations, the City Offices of Small Business and Economic Development Departments as well as other pertinent groups can explore the formation