

Testimony of

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Before the

United States House of Representatives
Committee on Financial Services

On the Matter of

“Banks, Mergers, and the Affected Communities”

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Federal Reserve Bank of Boston
600 Atlantic Avenue
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Good morning Chairman Bachus, Ranking Member Frank, and members of the Committee on Financial Services. My name is Anne Finucane. I am the President, Northeast, of Bank of America. Ken Lewis, our President and CEO, has asked me to express his regrets that he is unable to attend today because of a previously scheduled Board of Directors meeting and has asked me to testify on his behalf and on behalf of the Company.

Bank of America is one of the world's largest financial institutions, serving individual consumers, small businesses and large corporations with a full range of banking, investing, asset management and other financial and risk-management products and services. The company serves 33 million consumers through 5,800 retail banking offices, more than 16,500 ATMs and online banking, with more than 11 million active users. Bank of America is the #1 Small Business Administration lender in the United States.

Today the Committee has asked me to testify on three matters:

- The effect of recent bank mergers, including this year's Fleet – Bank of America merger, on employment;
- Commitments made during the merger process; and
- The adequacy of current banking laws to protect the interests of the communities, both during the merger process and afterwards.

Employment

Almost two decades ago, the leadership of our company correctly concluded that there would be a revolution in banking which would lead to consolidation in the industry. We now provide banking services more efficiently, more accurately, than we ever have before.

As two banks – or for that matter, any two companies – are combined, there are often duplications in positions that must be eliminated to ensure the new entity remains efficient. Some degree of job reductions, although unfortunate, is necessary to ensure that the new bank remains profitable and able to deliver competitive banking services to its customers.

Yet a merger's impact on jobs varies greatly from transaction to transaction. Typically, in an "in-market" merger, the merging banks consolidate not only headquarters and back-office operations, but also branches, or "banking centers." In an "out-of-market" merger, such as ours, banking center jobs are largely unaffected by an out-of-market merger because, without a banking center overlap, there is no need to close banking centers and incur widespread layoffs of customer facing associates.

That was the case in our merger. Fleet and Bank of America had virtually no banking center overlaps and only two banking centers – both in Florida – were closed because of the merger. We did have some adjustment to banking center employment in August as we introduced Bank of America's banking center staffing model in the Northeast. While there were some layoffs, we

also were hiring to ensure our banking centers are staffed appropriately to serve customers at peak periods. This change in employment was more due to the adoption of a new staffing model to achieve strong customer service levels, rather than from the merger of the two institutions.

There have been layoffs for associates across the Company since the merger in April. That said, we've taken significant steps to minimize the employment impact on the area. At the time of the merger, there were roughly 17,900 of our associates located in New England. The company agreed to maintain current levels in New England, and we've taken a number of actions to ensure that we honor that agreement.

As of October 31, 2004, there were 15,000 full-time equivalent associates in New England, representing a reduction of 2,900. We recently have announced plans to add 400 full-time associates in our Wealth Investment Management headquarters in Boston and 700 FTEs in Rhode Island, for a total of 1,100 FTEs in New England. That puts our New England full-time equivalent total at 16,100 in 2005, for a net reduction of 1,800 FTEs since the time of the merger.

We will meet our commitments, relying on the same formula we have used to this point. That includes adding full-time equivalent positions in fast-growing businesses such as Wealth and Investment Management and continuing to rely on our Merger-Transition Office to identify additional opportunities to bring more positions to the region, similar to the ones already announced.

Last, we've helped to create and sustain employment in the New England region by hiring New England companies. Recent examples include our expanded relationships with Fidelity and Staples. These changes not only will have real and meaningful employment impact to this area, but also will fuel the regional economy.

We look forward to identifying additional opportunities through our dialog with community leaders. And, we are actively working to identify additional opportunities that will enable us to maintain the 17,900 level in 2006.

But we're not only working to preserve the number of jobs, we're providing some exciting benefits that are new to our associates in the Northeast, which are industry-leading and designed to support both professional development as well as balance in managing work/life issues.

In focus groups, many Fleet associates told us they believe career and professional development opportunities will be better at Bank of America. This expectation stems from Bank of America's multi-phased talent planning and pay-for-performance processes that are new to Fleet associates. These processes are designed to help every associate grow professionally and reach his or her full potential.

Bank of America long has been celebrated for its commitment to work/life balance for its associates. For the past 16 years, we have been on *Working Mother* magazine's list of the top 100 companies for working mothers. For instance, our Child Care Plus program, which will be available in April to associates in the region, reimburses eligible associates up to \$175 per month per child for childcare costs.

Eligible associates have a base annual salary of \$34,000 or less and a total annual family income of \$60,000 or less. We offer all associates a Dependent Care Account, where they can pay up to \$5,000 of dependent care costs through pre-tax, payroll deduction. From adoption reimbursement assistance to family resource and referral services, our work/life programs are recognized as world-class among businesses.

We want to help our associates live the American dream. Our Associate Home Ownership Program helps offset expenses associated with buying a house. With a Bank of America mortgage, an associate can receive up to \$5,000 in the form of an unsecured loan. All they have to pay is the interest – Bank of America pays the principal as long as the associate stays with the company. Within five years, the loan is 100% forgiven. Already, 319 Fleet associates have taken advantage of the Associate Home Ownership Program since it was first offered to them in May 2004.

In 2005, Bank of America will launch “Rewarding Success” to provide a cash award to associates for their contributions to our company’s performance. Rewarding Success will give most associates who earn less than \$100,000 a cash bonus when the company meets or exceeds certain financial targets. The majority of our associates around the world will be eligible to participate in this new opportunity to further share in the successes of our company.

We support our associates as they extend their commitment to serving our customers to service in their communities. Bank of America encourages and allows each associate to volunteer two hours per week during the work day. While the former Fleet program offered associates 20 hours per year for volunteer efforts, the Bank of America program allows a full-time associate to volunteer more than 100 hours per year. Through Team Bank of America, our associates have devoted more than 650,000 volunteer hours nationally to more than 3,500 non-profit organizations in one year’s time. More than 100,000 associates participate in our Diversity, Environmental and Volunteer networks.

In 2004, more than 1,500 associates and family members across Massachusetts contributed in excess of 7,000 hours to community activities, such as sorting food and clothing at community food banks, in-class teaching and job shadowing with Junior Achievement, numerous walk-a-thons throughout the state, and other volunteer events. Volunteers work at 15 different non-profit agencies on a monthly basis, year round.

To help those most in need, many of our associates volunteer monthly at the Greater Boston Food Bank sorting non-perishable goods for local pantries and soup kitchens. Additionally, about 150 associate volunteers from Boston locations have annually covered all shifts for a week.

Commitments

Bank of America is new to New England, but we have a proven track record of demonstrating and fulfilling our dedication – individually and collectively – to our communities. We are recognized nationally and within thousands of communities throughout our franchise as the leader in community and economic development and corporate citizenship.

Community Development

From time to time, we've announced pledges, particularly in the area of community development. We typically achieve far greater results. By any measure, the goals set by Bank of America have been followed with a track record of performance.

- In 1991, during the C&S/Sovran and NCNB merger that created NationsBank, the Company pledged \$10 billion in community development loans over a 10-year period. Within only four years, we exceeded that pledge, generating \$13.4 billion in community development loans. By five years, we nearly *doubled* our pledged production, generating \$19.9 billion in community development loans. By the sixth year, we had nearly *tripled* our goal, with \$28 billion in community development.
- In 1992, BankAmerica Corporation, in connection with its acquisition of Security Pacific, pledged \$12 billion in community development over 10 years. That goal was surpassed in four and a half years. By 1998, BankAmerica Corporation set a dramatically higher goal of \$140 billion over 10 years.
- A year later, with the merger of NationsBank and BankAmerica, we decided to set the standard even higher. We more than doubled the existing goal with a pledge of \$350 billion in community development over 10 years. In five short years, we are again well ahead of schedule, at more than \$230 billion in results.
- Fleet has a comparable track record of community success. In 1999, during the Fleet – BankBoston merger, \$14.6 billion was pledged to its communities, and having surpassed \$25 billion, we're on track to complete this at year's end with a projection of nearly doubling the pledge.
- With the merger of these two industry leaders, we've now pledged \$750 billion to community development over 10 years, beginning in 2005. We've targeted a portion of that -- \$100 billion – for here in the Northeast.

We haven't made community pledges in every acquisition we've done. But in some merger transactions, these types of targets serve an important purpose, not only to the community, but also for our associates and our shareholders. These pledges become aspirational goals that contribute to associate pride and maintain a community focus and involvement that increases customer satisfaction and, in the long term, overall profitability.

In the area of community development, we operate with three basic principles. First, we are relationship-builders. We create alliances with community groups everywhere we do business. Several of our alliance partners are here today. Second, we set national goals and then deliver on them locally by relying on local leaders and community partners to make the greatest impact possible. Third, we provide reports on our results.

The key to our success in building a record of results has been our strategy to create alliances with neighborhood organizations. By listening and learning about ways to have maximum positive impact in our communities, we have done exactly that. But investment in neighborhoods is about more than dollars. It requires leadership and advocacy. In this area, Bank of America stands second to none. We have actively led efforts in support of the CRA, funding a strong and consistent SBA, creating CDFI funding programs, permanently extending low-income housing tax credits, and creating the New Market tax credit. We know the importance of creativity and leadership. And, we apply our intensity toward creating models that are cutting edge.

Already we have shown our commitment to New England. In May 2004, Bank of America committed \$406 million in loan financing and \$18 million in grants for the Massachusetts Housing Partnership to help develop more housing for low- and moderate-income families in Boston and throughout the Commonwealth.

We provided \$200 million in loan financing over four years for community development in Boston, with a significant portion directed to the city's affordable housing strategy. We continue to be a member of the Federal Home Loan Bank of Boston, and we'll make 3,000 mortgage loans under the Massachusetts Soft Second Program over the next 10 years.

From the date of our merger agreement in October 2003 through this past November, we have made 22 Community Development real estate loans totaling \$134.7 million in Massachusetts. These projects will create 1,349 units of much needed affordable housing. Some examples of these projects include:

- The YMCA's Claredon House for single occupancy housing
- Morville House, with 179 units for seniors, and
- Eggleston Crossing, with 22 of the 64 units in this project reserved for the homeless.

A Boston landmark serves as another great example. We've committed \$8.6 million in construction financing for the renovation of the Dartmouth Hotel to provide 65 new units of affordable rental housing in the city. The developer, Nuestra Comunidad Development Corporation, will offer 45 of the units at a subsidized rate for low-income residents. In addition to studio and single-bedroom units, the renovation will include artists' lofts, bringing much-needed quality affordable rental space to the Roxbury community of Boston.

We have a strong record track record once we enter a new market:

- In Los Angeles, total community development lending and investment was \$2.7 billion in 1999. By 2003, it had increased to more than \$7.2 billion.
- In San Francisco, we've gone from \$1.7 billion in community development lending in 1999 to more than \$3.2 billion in 2003

- In Jacksonville, Florida - the 1999 total was \$269 million and that increased to more than \$1.4 billion in 2003. This represented more than a five-fold increase.
- In Phoenix, we've doubled the amount from 1999 to 2003 with a 2003 total of \$1.2 billion.

These are just a few examples to illustrate that we are serious about delivering results. We say what we'll do, and we'll do what we say. Our business model is proven and results driven. It differentiates us from the competition and makes a difference in the market.

Employment

Our \$750 billion community development goal is not the only pledge we announced during the merger. We announced our intention to maintain employment levels in New England, which I discussed earlier. This was a new form of pledge for Bank of America; we typically have not made employment related pledges in connection with our past mergers. Yet maintenance of New England employment was critical to the management of the combined company, and we intend to put the same effort behind our employment pledge as we have in our prior community development pledges.

Philanthropy

We also announced a goal for philanthropy. Beginning in 2005 and over the next 10 years, we'll reach a total of \$1.5 billion, making us one of the most generous corporations in America. Our goal represents a significant increase in giving over prior years. Bank of America and Fleet collectively donated \$96 million in 2003 and \$108 million this year for charitable purposes. Our 2004 Massachusetts charitable efforts include:

- \$50,000 to YouthBuild Boston's Core Construction Training Program that provides construction training and educational skill-building opportunities to primarily African-American, Cape Verdean, and Latino males, ages 18-24, in the inner city.
- \$60,000 to Boston Main Streets program. This initiative is the first urban, multi-district Main Streets program in the nation. Boston Main Streets provides funding and technical assistance to 19 neighborhood-based Main Streets districts throughout Boston to allow merchants and community residents to better compete in today's market and revitalize their districts.
- \$125,000 to Project Discovery Initiative to make arts more accessible to people of all ages, races, income and abilities.
- \$1 million to the Children's Hospital in Boston to support KIDVESTMENT: partnership for healthy kids.
- \$1 million to City Year for the Young Heroes Program.

Supplier Diversity

We also announced our plans to increase supplier diversity. Helping diverse businesses grow through contracting opportunities allows Bank of America to grow at the same time. This is just another way that we actively work to strengthen communities.

This is not a new goal for Bank of America. We formalized our supplier diversity and development program in 1990 to ensure diverse businesses are afforded the greatest possible opportunity to participate in our company's competitive contracting and procurement processes. Our original long-term goal was 10%. In 1999, we decided to raise the bar and now have an aggressive long-term goal of 15% of the overall amount for goods and services that allow for supplier selection, to be achieved by 2009.

For 2003, the year prior to the Fleet merger, Bank of America's annual goal was set at 8.5% in diverse spending of our \$6.6 billion in sourceable spend total. Actual performance for 2003 exceeded that goal, with 9.3% (or \$625 million) in diverse spending. At that time, Bank of America already was spending more than \$100 million, and double that of Fleet, in the Northeast. With the merger, our overall sourceable spending increased to approximately \$9.1 billion. The combination with Fleet had the effect of diluting Bank of America's diverse spending ratio to 7%, even though actual dollars devoted to minority suppliers did not decrease.

Despite this, we have set a goal of 9% for 2005. This represents a significant increase in actual dollars to diverse businesses.

Our objective to reach 15% in 2009 is unchanged. We remain steadfastly dedicated to increasing the amount of quality products and services we obtain directly from diverse businesses and that our larger suppliers also obtain from diverse suppliers. For instance, all contracts with domestic Bank of America suppliers above \$500,000 must include supplier diversity and development language and expectations. For domestic contracts less than or equal to \$500,000, documentation must be provided to show diverse supplier participation in the proposal request and bid process.

On December 9, 2004, Bank of America was named the Top Corporation for Multicultural Business Opportunities of 2004 by more than 350,000 diversity business owners. The 5th annual ranking was produced by Connecticut-based DiversityBusiness.com, the nation's leading multicultural B2B online portal. The voting business owners based their decisions on such factors as the volume, consistency and quality of business opportunities granted to women and minority-owned companies.

Adequacy of Current Law

Let me turn to the merger approval process. In connection with the Fleet – Bank of America merger, we filed applications or notices with four federal agencies, more than 30 state agencies, several self-regulatory organizations, and more than two dozen foreign countries. We participated in four public meetings in three different states involving more than 200 witnesses, and responded to nearly 400 comment letters. The approval process spanned more than five months, with the last approval received the day before our scheduled merger date. It was certainly the most exhaustively reviewed transaction in which we have participated.

In our opinion there are adequate measures in place to ensure that a bank honors its public pledges, without amendment to the Bank Holding Company Act or the Community Reinvestment Act. For example, a bank that fails to honor public commitments will generate *significant* adverse public comment, resulting in considerable delay in the merger approval process, if not outright disapproval. The market also acts as a very effective policeman in this regard. Bank management that routinely fails to honor commitments will rapidly lose credibility with customers, prospective customers, associates, media, business partners, regulatory agencies and officials, and will suffer. Simply put, failing to honor public commitments is not only a breach of public trust, it is bad business.

The Merger

We believe that the Fleet – Bank of America merger has been tremendously beneficial for our customers, associates, and our shareholders.

Retail Customers

First, we are all extremely pleased by the highly favorable customer response we have received from residents of this city, this state and throughout the region. Over the past eight months, we have seen overall customer favorability toward the company improve more than 20 percent. We continue to grow customer relationships and market share throughout the Northeast. As an example, in the first six months following the legal date of our merger, we've opened 129,000 net new checking accounts and 118,000 net new savings accounts.

You can see and get a sense of some of the differences in our business model at our Berkeley Street location in Boston. This is not a new banking center, but it has a completely new look and feel. In this regard, it is a flagship representing the open, welcoming, retail-like environment we offer for the convenience of our customers and for our sales associates. This year, we opened three new banking centers in Greater Boston, and we'll seek even more opportunities in the future.

Customers are telling us that they are excited about this new level of convenience and access. Another example of customer convenience innovation is our LoanSolutions program. It is bringing greater ease for Northeastern customers in applying for a mortgage through our 1,335 banking centers in the region.

This industry-leading technology already has enabled us to quickly and conveniently help more than 8,000 customers in the Northeast realize the dream of homeownership or to quickly and conveniently refinance their homes. Through all of our sales channels, we have helped more than 23,000 customers in the Northeast purchase or refinance a home and nearly 177,000 customers secure a second mortgage or Home Equity Line of Credit.

We also are maintaining or enhancing our product offerings to low- and moderate-income residents, including “low-cost” basic checking accounts and industry leading mortgage products such as Neighborhood Advantage and Neighborhood Champions – mortgage products created specifically for teachers, police officers, fire fighters and medical workers.

Though 2004 filings under the Home Mortgage Disclosure Act have yet to be finalized, we do have some internal tracking of our performance. Year-to-date through October, mortgage lending in our Northeastern states has resulted in 27.7 percent of all loans made to LMI borrowers, 17.7 percent within LMI areas, and nearly 18 percent to minority borrowers. Each represents significant increases in the percentage of total HMDA lending for these categories.

Small Business Customers

We recognize that small business is big business in America. It represents more than 99.7% of all employers and employs more than half of all private sector employees. We offer four critical things to our small business clients: convenience; superior service; products they can grow with and advice. We hear two primary things from our small business customers: make it easy to do business with you and give me value and advice. We are committed to supporting the neighborhoods and communities where our small business clients work and live. In terms of small business, Bank of America is the number one lender to small businesses, including nationwide leading performance in Small Business Administration lending.

Currently, we are seeing steady demand for small business capital across the Northeast – including New Jersey – with a very robust pipeline. We are at a highpoint for the year and are very encouraged going into 2005. Year over year in the Northeast, our application volumes are up just over 30%, and our booked loan commitments are up 35%.

As the 2004 number one SBA lender in United States, we made 12,758 SBA loans totaling \$451.1 million. Our average loan size was \$35,000, demonstrating that we are reaching and serving the truly small business owner. In addition, we are the number one SBA lender in 16 states. Based on the most recent data available, in 2003 we ranked number one in SBA lending to minorities nationwide. Forty percent of all loans and all loan dollars were to minority clients. Last year, we ranked number one in loans to Hispanics, Asian Americans and Native and more than tripled SBA loans to Hispanics and to African Americans.

Our neighborhood banking centers reach the smallest of companies and provide them great convenience -- confirming that we bank neighborhood businesses and actively support neighborhood economies across the state and country. Bank of America believes the SBA

program helps small businesses grow and prosper, and we plan to continue to aggressively offer these loans now and into the future.

Shareholder Value

Our merger is proving to bring value to shareholders of both companies. And, this benefits not just our investors, but our customers, our associates and our communities. In addition to the original 40% premium to their share price that Fleet's shareholders received on the day before the merger, they got an additional 7 percent from the Bank of America share price appreciation for the year after the announcement as measured from the day prior to the announcement.

Initially, some in the investment community expressed concern that this merger would negatively affect Bank of America's valuation for a long time. A year later, Bank of America shares are up 7% as measured from the close on October 24, 2003, the trading day before the merger announcement, to October 26, 2004.

Critics also said that big mergers hurt revenue and that the acquiring bank loses customers. We've proven that isn't the case.

Conclusion

Bank of America genuinely strives for excellence. We truly are seeking the highest standards of performance and accountability possible. Our merger, like many, has resulted in some job losses nationwide. But we've committed to maintain employment levels in New England, and we have an outstanding track record of meeting if not exceeding our commitments. We've also pledged to increase charitable giving and minority supplier utilization, and already have exhibited improvements in these areas over 2003 levels.

While bank mergers do impact local communities, I believe the net impact is a benefit when Bank of America is involved. Our contribution will be greater when we are allowed to follow our sound business processes. We have demonstrated that these processes work.

Thank you. I will be glad to try to respond to any questions that Members of the Committee might have.