Statement of Irene Baldwin
Executive Director
Association for Neighborhood & Housing Development Inc

Before The
U.S. House of Representatives
Committee on Financial Services
December 14, 2004

"Banks, Mergers, and the Affected Communities"

Chairman Bachus, Ranking Member Frank, members of the Financial Services Committee and other members of Congress, thank you for the opportunity to submit testimony about the important issue of bank mergers and their impact on communities. New York City, where our agency is based, has been hit by wave upon wave of bank consolidations in recent years. The trend towards increasingly large financial institutions has had a very real and often negative effect on our communities, and we are grateful that the Committee has turned its attention to this growing problem.

Our comments will be focused on recent JPMorgan Chase mergers and their impact on New York City communities.

About ANHD

The Association for Neighborhood & Housing Development (ANHD) is a membership organization of New York City non-profit neighborhood housing groups. We were formed in 1974 and today we have 93 active members, based in neighborhoods in all five boroughs of the City, representing both the most established community organizations and also younger, emerging neighborhood groups.

Our mission is to ensure decent housing and neighborhoods for the people of NYC, especially poor and working class people. We believe that the best way to achieve this mission is to support the work of those non-profit groups rooted in the community. We work with our member organizations to develop a local housing policy/advocacy agenda which is responsive to the needs and priorities of our diverse communities and we try to speak with a unified voice in promoting that agenda.

Many of our member groups came into being around the same time as the Community Reinvestment Act. These groups were created for the same reasons as the CRA: to turn around an epidemic of housing abandonment and fierce neighborhood blight brought on mostly by financial disinvestment. Over the past twenty-five years, thanks in large part to the Act, banks have returned to our neighborhoods and have become prominent partners in community revitalization. But now, with the transformation of the financial services industry in recent years and with the expansion of our area banks into national and even global financial institutions, many of these important partners are not as well positioned as they once were to respond to neighborhood priorities and community credit needs. With the health and future of our neighborhoods so intertwined with that of the Community Reinvestment Act, we believe the CRA needs to be more effectively enforced in the context of the new banking landscape.

Summary of ANHD Testimony

ANHD's testimony will focus on our experiences with JPMorgan Chase/Bank One in New York City as it relates to the following issues:

- Community development and CRA-related commitments made by the bank during recent mergers and the extent to which those commitments are currently being met.
- Adequacy of current laws to provide sufficient criteria to review the impact of bank mergers on communities and to ensure that communities' interests are protected after the merger.

Overview of Past Community Development Commitments of JPMorgan Chase

As noted earlier, it is a particular concern to ANHD members that, as our local banks have merged, the larger institutions have become less responsive to community needs and priorities. This is a fairly new problem which has only come to ANHD's attention in the past two or three years. The story of JPMorgan Chase in NYC offers a good example of the challenges financial institutions face in addressing community development needs as their scope becomes national and global.

At the time of its merger with Morgan, Chase Manhattan Bank had been considered a leader in community development in New York City for many years. Always one of our largest retail banks, it was also considered by many to be the dominant bank in community development. As we noted in comments submitted to the Federal Reserve in March 2004:

> *"Traditionally, Chase had been considered the premier community development lender and investor in our neighborhoods. Community-based organizations used Chase (and still do) for their banking services; Chase was the lender of choice for community development real estate loans and lines of credit. Chase also had strong affordable mortgage programming and was a leading partner with community groups in increasing homeownership opportunities for underserved constituencies. In addition, Chase was considered a leading philanthropic funder of community-based organizations in support of affordable housing and neighborhood revitalization initiatives."*

(A copy of the March 2004 comment letter is attached to this statement as Attachment 1).

Morgan Guaranty Bank had also been very well regarded as a strong investor in low-income neighborhoods. Its programs and initiatives were different from Chase's; in contrast to Chase's extensive direct lending to community groups, Morgan CDC did a great deal of indirect lending and investment through intermediaries. Morgan played an advisory role in helping to design and structure new community development initiatives and it assumed a leadership role in financing those projects and in attracting other investors. Morgan's advisory and investment services were not replicated by any other financial institutions in the City at that time. Both Chase and Morgan also had very generous grant programs which, as with their lending, varied in strategy and priorities.

In November, 2000, after Chase applied to the Federal Reserve for approval to purchase Morgan, ANHD submitted comments to the Fed which noted the exemplary community development programs of each of the two banks. Our comments also noted our fear that some of Morgan's programs would be eliminated as a result of the merger. We were also concerned, even at that time, that as the bank expanded its regional and national presence, its community development focus in New York City would diminish. (A copy of the November 2000 comment letter is attached to this statement as Attachment 2).

On November 30, 2000, ANHD leadership met with the JPMorgan Chase Vice Chairman for the retail bank, as well as with various Chase staff, to discuss the issues we raised in our comment letter. At that meeting, the bank promised to preserve all of the staff and programs of Morgan CDC.

Bank representatives also promised to maintain within the merged institution the existing levels of community development lending and investment of the separate banks. And, importantly, the bank proposed a community development organizational structure which we thought supported effective community development programming.

Over the course of the next three years, there were a number of changes at the bank. Then, in early 2004, when JPMorgan Chase applied to acquire Bank One, ANHD again submitted comments to the Federal Reserve regarding the merger; this time, however, the tone of those comments was very different.

When we reached out in 2004 to our community organizations to learn about their recent experiences with JPMorgan Chase, we received substantially more negative criticism than we saw during the previous merger. There was a sense that while Chase was still in many ways a strong and committed partner, it was less able to support community development efforts on a neighborhood level. Its Community Development Group had become decentralized and had lost staff and resources and the bank was less effective in working with community groups. It was feared that with the planned merger and the relocation of the bank's retail headquarters, these problems would be exacerbated. ANHD also had a very particular concern that the bank did not honor many of the promises it had made to community groups at the time of the Chase and Morgan merger.

What was most dramatic to us was how quickly the bank's performance changed from 2001 to 2004.

Community development and CRA-related commitments made by JPMorgan Chase during recent mergers and the extent to which those commitments are currently being met

When ANHD members met with JPMorgan Chase representatives in November 2000, the bank promised the following:

- It would preserve the staff and programs of Morgan CDC.
- It would maintain a centralized Community Development Group appropriately situated within the bank to coordinate and deliver a full range of community development products and services. (*This was a very important issue to ANHD members- an effective organizational structure is as critical to good community development programs as the commitment of financial resources*)

- It would maintain the existing levels of community development lending and investment of both Morgan and Chase, with an eye towards increasing those levels if the bank's profitability improved.

The bank failed to honor these promises:

- Within a year, the entire staff of Morgan CDC were gone and were not replaced
- Over the next three years, the Chase Community Development Group was gradually broken down: The Foundation was taken out of the Community Development Group and moved to public relations, the Affordable Mortgage division was eliminated, the Morgan CDC programs no longer existed and there was substantial shrinkage in staff.
- Two years after the merger, the Chase Foundation reduced its philanthropic budget by 10% and shifted resources away from community development into other interest areas. And, at least from the experience of our membership, the bank is no longer lending to community groups at levels it had in the past.

We had several meetings with bank representatives over the past three years, at which time we reminded them of their earlier promises; each time we were told, for varying reasons, that the bank would not be honoring those commitments.

Adequacy of current laws to provide sufficient criteria to review the impact of bank mergers on communities and to ensure that communities' interests are protected after the merger

The Community Reinvestment Act plays a pivotal role in ensuring financial investment in low-income communities. The broad nature of its mandate gives banks and communities the flexibility to craft products and services to meet the specific needs of particular communities. However, this same broad mandate makes it difficult to set threshold standards of performance for financial institutions. As applied, it is not very effective in protecting communities' interests after a bank merger.

ANHD routinely submits comments to federal regulators when a major New York City bank seeks approval to merge. We have always found it very easy to comment on a merger; the staff at the agencies are always very helpful in providing us with information we need regarding the application and there are no rigid rules as to the form of the comment.

The fact that banks' CRA performance is a factor in approving an application makes banks much more willing to meet with community representatives during the course of the merger. It also provides an incentive for banks to make increased commitments at that time to low-income communities; for example, the recent JPMorgan Chase/Bank One commitment of $800 billion dollars over ten years to low- and moderate-income communities.

Current Laws Need Reform

Despite the important role the CRA plays in encouraging financial investment in low- and moderate-income communities, there are many weaknesses in the current laws' ability to protect community interests after a merger:

- Since no bank merger in recent memory has ever been turned down because of the banks' poor CRA performance, it leads one to question whether the law is in fact being rigorously enforced.
- The application review process seems to rely over-heavily on past CRA performance. In the JPMorgan Chase/Bank One approval order, a number of very substantial concerns were raised by commenters. The approval order sets out these concerns, but does not respond to them; it instead discusses how the banks' most recent CRA evaluations would weigh most heavily in its decision. This approach seems to make the whole public comment process rather pointless.
- The regulators do not enforce CRA commitments, even those made in the course of obtaining approval for a merger. In the case of JPMorgan Chase, ANHD submitted written comments to the Federal Reserve in 2000 documenting our concerns with the Chase/Morgan merger. Then, after the bank made certain commitments to us, we also forwarded that information to the regulators. In 2004, our comments to the regulators on the JPMorgan Chase/Bank One merger described in some detail our difficulties in getting Chase to honor the commitments made in the earlier merger. None of these generated any response from the regulators (nor did we expect them to). ANHD generally relies on the good-faith of the financial institution to carry out any commitments it makes.
- Banks are not required to generate prospective CRA plans as part of the merger process. In the case of JPMorgan Chase/ Bank One, ANHD, along with advocates around the country, urged Chase/Bank One to develop detailed, specific CRA plans for each of its major markets, including New York City. We recommended the bank adopt for NYC a formal, written CRA plan with clear lending and investment targets, timelines and outcomes, by which

Chase, its regulators and the public could monitor and evaluate the bank's performance. The bank did not generate such plans. JPMorgan Chase/Bank One did announce a 10 year $800 billion dollar CRA commitment in April, which is the most ambitious CRA commitment ever, and very exciting. However, the commitment is very broadstrokes and it is impossible to evaluate or monitor to what extent it will benefit New York City's communities, or the local communities in Chase's other markets.

Conclusion

As the trend towards bank consolidations continues, the impacts of mergers on local communities will become more visible. While JPMorgan Chase remains committed to community development in New York City and is still a very prominent investor in low-income neighborhoods, it plays a lesser role than it once did. We believe the challenges the bank faces are due to its very large size; it is not as well positioned to respond to neighborhood priorities as it was when its market was local. Other large banks have the same constraints, and we expect this situation to worsen as these large mergers continue. As part of the solution to this complex problem, we will need regulatory and legislative reform which encourages very large banks to remain accountable to local communities.

Text of Comments Submitted on Letterhead 3/13/2004

March 13, 2004

Jennifer Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue N.W.
Washington, DC 20551

COMMENTS REGARDING THE PROPOSED MERGER OF JPMORGAN CHASE AND BANK ONE

Dear Secretary Johnson,

ANHD urges the Federal Reserve Bank to condition approval of the JPMorgan Chase/Bank One merger upon specific commitments by JPMorgan Chase to substantially strengthen its community development/CRA programs and initiatives in New York City.

Because of the immense impact this merger would have on low-income communities around the country, we also join other commenters in urging the Federal Reserve to hold public hearings in each of JPMorgan Chase & Bank One's major markets.

Summary:

The Association for Neighborhood & Housing Development (ANHD) is a 30 year old non-profit coalition of 102 New York City neighborhood-based housing groups. Collectively and individually, our members are very familiar with JPMorgan Chase's community development programs and how they compare with those of other New York City financial institutions.

These comments are based on our direct experiences with JPMorgan Chase over the past three years, on meetings and discussions we have had with JPMorgan Chase staff and leadership during that period, and on comments and information we solicited from our membership regarding their perceptions of Chase's community development & CRA strengths and weaknesses.

With 200 branches in the five boroughs, JPMorgan Chase Bank is far and away New York City's largest retail bank. Chase in its current configuration is the result of mergers with several NYC retail banks over the past fifteen years. Traditionally, as Chase has absorbed all these other local financial institutions, it has been able to grow its community development programs to become a strong partner in our neighborhoods as well as a citywide leader in community development. However, since the last merger, the acquisition by Chase of JPMorgan, we have seen a retrenchment from this role and JPMorgan Chase has become a less visible presence on a neighborhood level. We are concerned that the pending merger, and the relocation of the bank's retail financial services headquarters to Chicago, will exacerbate this disturbing trend to the great detriment of New York City's neighborhoods.

Issues:

Our core concerns and issues are as follows

- JPMorgan Chase's organizational structure, through recent reorganizations, limits its ability to establish effective partnerships on a neighborhood level.
- JPMorgan Chase's community development programs have become less responsive in recent years to the priorities and needs of NYC's low-income neighborhoods.
- JPMorgan Chase did not fully honor certain commitments it made to community groups around its last merger. We fear the same will occur with this pending merger.

Discussion:

In various conversations and meetings the ANHD membership has had with Chase leadership over the past three years, the bank has made it clear it considers itself more and more a national, or even global, institution, and it has restructured its programs and products accordingly. As a result, in community development, JPMorgan Chase now works more and more with large intermediaries and regional and national organizations and less with community-based groups.

But despite JPMorgan Chase's growing national presence, it is still NYC's largest neighborhood banking network. Traditionally, Chase had been considered the premier community development lender and investor in our neighborhoods. Community-based organizations used Chase (and still do) for their banking services; Chase was the lender of choice for community development real estate loans and lines of credit. Chase also had strong affordable mortgage programming and was a leading partner with community groups in increasing homeownership opportunities for underserved constituencies. In addition, Chase was considered a leading philanthropic funder of community-based organizations in support of affordable housing and neighborhood revitalization initiatives.

Today, this is no longer the case. Fleet, with only a fraction of Chase's branches, originates more community development loans in NYC. Chase no longer has an affordable mortgage division and it lags behind other local lenders in its home lending to minorities. All of the other major financial institutions allocate a far greater percentage of their philanthropic budget to affordable housing and neighborhood revitalization than does Chase.

While Chase is still in many ways a strong and committed partner in community development, it has surrendered the leadership role it once held and which is expected of it as the City's largest bank. We hope that, as part of this merger, and as the bank reorganizes yet again, it can recommit to New York City, and especially to the City's low-income neighborhoods.

Structural Issues:

When Chase was at its most effective, it had a strong, centralized community development group. Community development lending and investment, affordable mortgage programs and community development philanthropy were all housed within the group and this enabled the bank to develop strong, seamless partnerships in low-income communities. Neighborhood organizations were able to develop good working relationships with loan officers and other Chase staff to respond to emerging community credit needs and priorities.

When Chase acquired JPMorgan towards the end of 2000, ANHD leadership met with David Coulter, who was at the time the Chase Vice-Chairman for National Consumer Finance. At that meeting, Mr. Coulter committed to, among other things, maintaining a centralized group which coordinated and delivered the full range of community development products and services of the two merging banks. (*See attached letter from ANHD to David Coulter dated December 8, 2000*).

However, a year after making that commitment, the programs of the Morgan CDC were discontinued. That same year, the Chase Foundation was moved out of the Community Development Group and housed instead in public relations. Then in 2003, the Community Development Group eliminated its affordable mortgage division; affordable mortgage programs, insofar as they still exist, are now delivered out of the bank's mortgage company, which we believe operates out of Ohio.

While this fragmentation of the community development group and its programs was taking place, the bank was at the same time cutting back on staff resources for these initiatives. The entire staff of Morgan CDC left the bank and was not replaced. The Chase Foundation once had eight staff, now it only has three dedicated to New York City philanthropy.

This downsizing has had a very real impact on Chase's community development programming. Community development grantmaking is now done entirely electronically- proposals can only be submitted on-line; responses are delivered via e-mail. Chase grantees routinely go years without speaking to a human being at the bank; grantmaking as a result has become less strategic and the grant process more error-prone.

A number of ANHD's CDC members, those who develop affordable housing, have found that it has become more difficult to obtain community development loans from the bank. It was noted that loan officers are no longer able to work as closely as they once did with community-based organizations to move a loan proposal through Chase's approval process. As a result, Chase is making fewer loans to community-based organizations.

Programmatic Concerns:

The structural problems highlighted above, along with a reduction in financial resources, have visibly weakened JPMorgan Chase's community development programs and services.

Community development lending: While Chase remains a major community development lender in New York City, most of its lending is now to large intermediaries and for-profit developers, moving away from direct lending to community organizations. Community-based housing groups have identified a continuing need for direct lending, particularly for affordable housing, and Chase needs to rebuild its programs in this area to meet this critical need.

Community development grantmaking: Chase is a very generous supporter of a range of charitable initiatives in New York City; its CRA-eligible grant support in NYC last year was $13 million. (With an additional $2 million to the United Way.) We recognize Chase's overall generosity, but it has been an ongoing concern of the ANHD membership that Chase's CRA-related grantmaking is no longer tied to core community priorities.

Of greatest concern is the minimal amount of funding Chase provides for affordable housing programs. The most recent CRA evaluation of Chase (9/2003) recognized that funding for affordable housing programs and initiatives is a core community credit need in New York City, particularly in our low- and moderate-income communities. While other financial institutions acknowledge and respond to this need Chase allocates less than 15% of its CRA-grant budget to affordable housing efforts. Over the past three years, the bank's United Way contribution far exceeded its support for affordable housing programs. *See attached letter from Mark Willis dated 2/18/2004.* By comparison, HSBC, Washington Mutual, Bank of New York and M&T Bank each confirmed that at least 50% of their NYC CRA grant budget last year was targeted to affordable housing. (One bank dedicated 80% of its grant budget to this critical issue).

Just as Chase has been shifting its lending efforts towards large intermediaries and away from community-based organizations, it is doing the same in its grantmaking. Many of the local banks Chase has acquired once provided significant grant support to community-based organizations; they were in fact central sources of funding for neighborhood groups. Today, few of these organizations receive anywhere near a comparable level of support from JPMorgan Chase as they did from the predecessor banks. Chase's shifting priorities and its reduction of support to community-based organizations has created real hardships for these neighborhood groups.

Affordable Mortgage Lending: ANHD received very positive comments from community groups about Chase's affordable mortgage products and programs. Chase was considered one of the major home lenders in many neighborhoods, and those organizations with homeownership programs reported that Chase had responsive loan officers and good products. Neighborhood groups considered Chase an excellent partner in their efforts to increase homeownership opportunities for poor and working people.

However, there are some broader issues around Chase's home mortgage lending. According to research by the National Community Reinvestment Coalition, Chase seriously underperformed compared to NYC lenders as a whole in its level of lending to African American or Latino borrowers and in minority communities. In 2002, 16% of Chase's single family loans were to black or Latino borrowers, compared to 19% by lenders as a whole. It fared even worse in lending in minority census tracts: only 20% of its lending was made in those tracts compared to 26% by lenders as a whole. Further, the bank's last CRA evaluation noted that it was only "adequate" in lending to low-income and moderate-income borrowers in the New York MSA.

Community groups have also reported that they are seeing a rise in foreclosures by Chase on 1-4 family homes in their neighborhoods; the foreclosure rates exceed those of other major lenders in the community. ANHD first raised this issue at a meeting with Vice Chairman Donald Layton in February 2003 and then at ensuing meetings, most recently at a January 2004 meeting with Chase leadership. The problem is still not resolved; Chase needs to work with community organizations to establish a solid foreclosure prevention effort to reverse this very troubling and destabilizing trend in our communities.

Monitoring Chase Commitments*:*

We would strongly urge the Federal Reserve to insist on a transparent monitoring and reporting process for any commitments Chase may make in the course of this merger.

As we noted in other sections of this comment, Chase made several commitments to the ANHD membership at the time of its merger with Morgan. This was not a formal CRA agreement, but (we thought) a good faith commitment by the bank to its community partners. Within two years, Chase unabashedly and unapologetically reneged on almost all of its promises.

ANHD has also found it very difficult to obtain specific information from Chase on its CRA-related programs and activities. As the attached correspondence reflects, we have repeatedly asked for budgets or targets on Chase's community development lending, investments and grants; we never receive this requested information. We run into a similar obstacle when we ask for details on past performance. For some time, we have raised the concern that Chase is decreasing its lending and grant support for community-based groups. We have made straightforward requests for information on the number and percentage of Chase's loans and grants to community organizations; we have not been able to obtain this information either.

In the past, Chase would generally provide very detailed information on its CRA-related activities upon request. This reluctance to provide specifics on its community development efforts is fairly recent. Without this basic information, it is very difficult for communities and advocates to intelligently evaluate or comment on the bank's CRA performance. We hope Chase will again begin to provide this information to the public.

Recommendations:

1. **Public Hearings:** We strongly urge the Federal Reserve to hold public hearings on this proposed merger. We discussed above our difficulties in obtaining details from Chase on its CRA-related lending and investments; we suspect other interested stakeholders face the same problem. Public hearings which fully explore Chase's CRA activities would give all of us the information we need to evaluate the bank's CRA performance and, more importantly, the impact of this merger on our communities.
2. **CRA Plans:** We also urge as a condition of this merger, that Chase/Bank One develop detailed, specific CRA plans for each of

its major markets, including New York City. As we also discussed above, we do not believe that Chase honored all of the promises it made during previous mergers. To avoid this occurring again, we recommend the bank adopt for NYC a formal, written CRA plan with clear lending and investment targets, timelines and outcomes, by which Chase, its regulators and the public can monitor and evaluate the bank's performance.

3. **Community Development Structure:** We further recommend that JPMorgan Chase establish a community development structure which effectively supports neighborhood needs and priorities. For NYC, we recommend that Chase re-establish a centralized community development group within which is housed community development lending, philanthropy and affordable mortgages. Staffing needs to be expanded so that Chase may begin to re-establish relationships and partnerships with communities and community groups to carry out successful neighborhood-centered community development programs in our low income communities.

4. **Community Development Programs:**
   Lending: We recommend that Chase strengthen its capacity to undertake direct lending to community-based organizations, particularly in the area of affordable housing. We recommend that Chase establish as a target making at least half of its community development loans to community-based organizations.

   Philanthropy: Here, too, we recommend that Chase re-establish its connections to the City's neighborhoods. We recommend, again, that at least 50% of Chase's CRA-related grants be awarded directly to neighborhood-based organizations. We also recommend that Chase better focus its grantmaking on community priorities. Like its peers, the bank should allocate at least 50% of its CRA grant budget in NYC to affordable housing. Finally, Chase should increase it overall grant budget. In its merger application, Chase noted it would increase its contributions in Chicago; it was silent as to any increased support elsewhere. In keeping with its planned growth, Chase should increase its CRA-eligible philanthropy in NYC by 40%, the amount Bank of America committed to in its recent merger.

   Affordable Mortgage Programs: This is an area of tremendous concern to ANHD. In our comments we noted real strengths and real weaknesses in Chase's mortgage lending. With the recent dismantling of the affordable mortgage division, it is not clear to us that Chase will be able to maintain the strong partnerships it has with housing counseling organizations in New York City's low-income neighborhoods. We are equally concerned that Chase will not be able to turn around its rising foreclosure rates without a strong local foreclosure prevention program. We recommend that Chase re-establish its affordable mortgage division and work with community partners to strengthen and expand its homeownership programs and foreclosure prevention efforts.

Conclusion:

As we have tried to communicate throughout this comment, Chase had traditionally been the leader in community development among New York City financial institutions. Chase was once the model by which we measured other local banks. As it grew and expanded through different mergers over the years, it became an increasingly prominent institution in our City's neighborhoods. However, the bank's continued growth has most recently had the opposite effect; it has reached a scale where it is less able and interested in establishing and maintaining community partnerships. Although our City's largest bank is still prominent in community development, it has abdicated its leadership role. We are very concerned that yet another expansion, particularly one which will greatly extend the bank's geographic reach and move the retail bank's headquarters to Chicago, will create even more distance between Chase and its communities.

We are hopeful, though, that Chase will choose to recommit to its communities. With the increased resources of the merged institution, the bank could once again become the leader in community development that it once was. ANHD and its membership would be eager to work with JPMorgan Chase to help them accomplish this.

Sincerely,

Irene Baldwin
Executive Director

cc: J. Bernstein, FRB
E. Rodriguez, FRB
M. Willis, JPMorgan Chase

attachments

Text of Comments Submitted on Letterhead 11-13-2000

November 13, 2000

Jennifer Johnson
Secretary
Board of Governors
Federal Reserve System
20th Street & Constitution Avenue N.W.
Washington, DC 20551

COMMENTS REGARDING THE PROPOSED ACQUISITION BY THE CHASE MANHATTAN CORPORATION OF JP MORGAN and the MERGER OF CHASE MANHATTAN BANK and MORGAN GUARANTY TRUST

Dear Secretary Johnson,

Below are preliminary comments from the Association for Neighborhood and Housing Development (ANHD) regarding the proposed merger of Chase Manhattan Corporation and JP Morgan. These comments were faxed to the Federal Reserve Bank of New York on November 13, 2000.

ANHD has a number of comments and concerns regarding this merger and we are meeting with David Coulter, National Consumer Finance Vice Chairman at Chase on November 30, to discuss these issues. We will also submit supplemental comments to the Federal Reserve Bank by December 7, based on the outcomes of this meeting.

Background on ANHD:

The Association for Neighborhood and Housing Development (ANHD) is a non-profit member organization whose membership is composed of ninety five neighborhood-based New York City non-profits engaged in housing, community development and economic development in low and moderate income neighborhoods throughout the five boroughs. Our members work extensively with financial institutions and other partners on a wide range of housing and economic development initiatives in their communities and have a thorough and first hand knowledge of New York City banks' CRA-related activities in their neighborhoods.

Summary of Our Concerns Regarding the Merger

The ANHD membership is deeply concerned about this merger and for reasons that are somewhat different then those raised around other bank mergers. Both Morgan Guaranty Trust Company and Chase Manhattan Bank are true leaders in community development in New York City. Both banks have very substantial levels of lending and investment in the five boroughs of the City and, from a community development perspective, community organizations could not have two better partners in neighborhood revitalization.

Each bank has a very different community development philosophy and strategy and we need each of those strategies to support our neighborhood preservation and housing development efforts. For example, Chase does a great deal of direct lending to New York City community organizations and is probably the leader among area financial institutions in the depth and breadth of its lending and investment in neighborhood-based community development projects. As the merger application noted, Chase provides construction lending, interim financing, permanent loans and letters of credit to finance community-sponsored affordable housing projects in our neighborhoods. It also provides community organizations with cash flow lines of credit and with recoverable grants to support project pre-development costs. Finally, Chase has extensive small business lending initiatives and residential lending programs. Particularly noteworthy is the bank's participation in the New York Mortgage Coalition, a model program to increase access to credit by lower income first time homebuyers.

Morgan CDC, on the other hand, does a great deal of indirect lending and investment. Through partnerships with intermediaries, Morgan has provided technical assistance and financing to create exciting new, large-scale community and economic development initiatives which would simply not have happened without Morgan's presence as the lead investor.

Both banks are also very generous supporters of community organizations; here again, each bank has a somewhat different strategy and philosophy in their grantmaking initiatives, and we highly value each of their efforts. And, in the case of Morgan, that bank also administers several private foundation accounts and it has been very successful at finding funding opportunities for its private clients with an interest in urban affairs in NYC. That link has been a great benefit to nonprofits here.

While in the other businesses of the two institutions it might make a great deal of sense to merge, from a community development perspective, New York City's low income neighborhoods stand a great deal to lose if any of the distinctive programming of each of these banks is lost through the merger.

Because Chase is the acquiring bank, much of our concerns focus on what will happen to JP Morgan's programs after the merger. (*If Morgan were buying Chase, we would have similar concerns about the future of Chase's programs*). Our major concerns are as follows:

- Morgan CDC is a great asset to New York City communities. According to the intermediaries with whom it partners, Morgan plays an advisory role in helping to actually design and structure new community development initiatives and it assumes a leadership role in financing these initiatives. Morgan is also very successful in attracting other investors to these projects. Many of the non-profit organizations that work with Morgan have indicated that its advisory and investment services are not replicated by any other financial institutions in the City. Examples of its important work in this area are cited in the application: its' role in creating the Primary Care Development Corporation; the bridge financing and gap loans it provides to local equity funds which syndicate Low Income Housing Tax Credits; and its current efforts to syndicate Welfare-To-Work Tax Credits. ANHD would like assurances that the CDC is well integrated into Chase's community development structure and that its budget and resources are maintained post-merger so that it can continue and build on its important work.
- Morgan's grantmaking and Chase's grantmaking have significant areas of overlap (where they both fund the same organizations) and significant areas of departure where each bank has philanthropic initiatives not replicated by the other. A great many New York City community organizations have regularly received each year substantial grants from each of the two banks; a decrease in that support would be a significant blow to these organizations. In addition, Chase has very great breadth of grantmaking; it has been able to reach an extraordinarily large number of community organizations, far beyond the universe of community organizations with whom Morgan works. Further, Chase has a number of special initiatives aimed at critical community development priorities, including its various financial literacy programs and its faith-based community development program. Morgan, on the other hand, has been able to work very closely with a smaller number of organizations and, through its more labor-intensive processes, has been particularly effective in linking its private foundation clients with an interest in NYC community development with these community groups. ANHD would like to know how Chase plans to integrate these two philanthropic programs; community organizations' cannot afford to lose either of these important partners as they meet the challenges of rebuilding and preserving low income neighborhoods.
- JP Morgan's CRA assessment area is New York City; Chase has a much larger assessment area. We are concerned that, over time, even if levels of lending and investment are expanded, the community development focus on New York City will diminish as Chase's regional and national presence grows. We would like a commitment from Chase to preserve and expand on the existing level of grants, loans and investments both Morgan and Chase now make in New York City.
- Chase expects to save money and increase profits as a result of this merger. As the new bank expands its services, it will also be better positioned to expand its community development programming. ANHD believes the new bank should, as a baseline commitment, maintain both Chase and Morgan's current level of lending and investment in New York City for at least five years. The bank should also have a specific strategy in place where, as its profits increase, it appropriately increases its level of lending and investment beyond this baseline level.

We are looking forward to a very productive meeting with Chase and Morgan leadership in December, where we are hopeful that these concerns will be addressed. We will at that time file supplemental comments with the Federal Reserve Bank of New York regarding the impact of this proposed merger on the convenience and needs of New York City's residents and its impact on the CRA-related lending and investment of JP Morgan and Chase.

Sincerely,

Irene Baldwin
Executive Director