

Testimony of Representative John F. Quinn

**Committee on Financial Services hearing on
“Banks, Mergers, and the Affected Communities.”
Tuesday, December 14, 2004
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts**

A. INTRODUCTION

For the record, my name is Representative John F. Quinn and I currently serve as House Chairman to the Joint Committee on Banks and Banking in the Massachusetts Legislature. First, I wish to thank Chairman Oxley, Congressman Frank and members of the Committee for giving me the opportunity to speak on this important matter.

B. WAVE OF BANK MERGERS

Over the last few years, several waves of bank mergers have washed over this region and many venerable banking institutions have disappeared in the last decade. Here in Massachusetts we are all too familiar with bank mergers and the impact that they have. And, while some may point to streamlined banking, greater efficiency, and lower costs as a benefit of such mergers, the true cost often comes in job losses and economic injury to local communities.

Unlike a retail store, a bank can and does breathe life into an entire community. Moreover, a long-standing banking institution becomes part of the fabric of a community like no other entity. So, it is understandable that

the loss of such an institution as a result of a merger can and often does have an enormous impact on a community.

Recent merger transactions have shown that many times communities are not prepared for a merger's full consequences. Much of this may be due to the fact that merging parties are not obligated to fully disclose their post-merger plans in order to gain regulatory approval. As a result, job losses and other negative impacts can come as a surprise.

C. MERGER APPROVALS IN MASSACHUSETTS

To guard against a detrimental impact that might result from a proposed merger, Massachusetts state law requires prior approval for all bank mergers similar to federal law. In many cases, the Commissioner of Banks *alone* may grant approval for a merger. However, in a merger involving a bank holding company, approval must come from the state Board of Bank Incorporation (known as the "BBI") after a public hearing.

The "BBI" is a 3-member panel consisting of the Commissioner of Banks, the Commissioner of Revenue, and the state Treasurer.

Under current state law, to approve such bank-holding company merger, the BBI is required to determine two things:

1. whether or not competition among banking institutions will be unreasonably affected, and
2. whether public convenience and advantage will be promoted.

In making such a determination, the BBI, is required to consider a showing of “net new benefits”. "Net new benefits" is defined in the statute means “initial capital investments, job creation plans, consumer and business services, [and] commitments to maintain and open branch offices within a bank's delineated local community.”

D. CURRENT ISSUES

Over the last several years, some mergers approved by the Board under the criteria set out in the statute have had certain negative consequences on communities served by the *target* bank. This was true with the acquisition by Sovereign Bancorp of Seacoast Financial which resulted in substantial job loss in southeastern Massachusetts and especially greater New Bedford. Another example was the Bank of America acquisition of Fleet Financial, in which short-term reductions in bank personnel was part of the outcome. How is it that, despite a public hearing and testimony by the petitioners, that neither the Board nor the public was prepared for the job reductions and/or branch closings that followed approval of these mergers? The answer to this question is that the extent of these potential job reductions was not spelled out before approval was granted.

Part of the blame lies with state law in that it does not now specifically require petitioners to include projected post-merger reductions in employment that might be planned. This is unfair to consumers and communities alike and should be rectified.

It is my hope that, as a result of these hearings and future discussions with all interested parties, the approval process both at the state and federal level can be tightened and that complete disclosure will be required of the petitioning parties.

I have recently filed a comprehensive bill for the upcoming session in the Massachusetts Legislature which would tighten-up the approval process. Some of these same concepts may be appropriate to incorporate into federal law as well.

The legislation put forth addresses the following four issues:

- add the state Attorney General and a member of the public appointed by the Governor to the Board.
- require that all testimony before the BBI be under oath and subject to perjury laws.
- require the petitioning bank to file a statement containing information on projected employment levels for 1, 3, and 5 years after the merger including information on anticipated branch closings as well as job losses.
- would require a petitioning bank to make 1% of its assets available for call by the *Massachusetts Development Financing Agency* for a 10-year period.

Two components of this legislation that this Committee might consider enacting on the federal level would be to require projected employment levels of one, three and five-year periods to be filed by the petitioning bank prior to approval of the merger. Secondly, the requirement

of an economic development exit fee to be paid to help minimize the negative impact of the merger on smaller communities.

One of the most detrimental effects of these mergers is the resulting job loss particularly of the back office personnel. These jobs are oftentimes the lowest paying jobs. Congressman Frank can certainly attest to the negative consequences of nearly 300 jobs lost in the Greater New Bedford area as a result of the Sovereign-Seacoast merger; not to mention the short-term job loss and reductions in hours for customer-facing employees resulting from the Bank of America/Fleet merger.

During the merger process the petitioner should be required to disclose the projected job losses for one, three and five year periods. This does not make a mandatory requirement to create jobs but rather to make a public disclosure of probable job levels so that the state and public can prepare for the impact.

My second proposal which should be considered by this Committee is to impose an economic development exit fee equivalent to a percentage of the petitioner's assets be paid by the acquiring bank.

When companies enter into a region and are expected to have a negative impact on traffic or the environment, there are often mitigating payments or corrective actions required that are paid for by the companies. Why can't this same concept be applied to the banking industry as well? National banks receive many benefits from the federal government and thus

should not be allowed to exit or enter marketplaces and leave a swath of economic devastation in their wake.

Such exit fees are not without precedent. Currently under Massachusetts state law the BBI is precluded from approving bank-holding company mergers unless the acquiring party has made arrangements such that an amount equal to 1% of its assets in the Commonwealth is made available for ten years to Massachusetts Housing Partnership Fund for the purpose of financing the Partnership's affordable housing efforts. This requirement has had a tremendous impact on the affordable housing market and it certainly has not slowed the desire to enter the Massachusetts' banking marketplace through acquisitions of Massachusetts banks as we can see by the recent vigorous merger activity. This same model could be extended to economic development projects in an attempt to minimize the negative consequences of mergers and in particular the loss of jobs.

E. CONCLUSION

In conclusion, it is clear that bank mergers have a unique impact on local communities as well as the entire region. The distinctive character of a banking institution requires that its potential loss due to a merger be given careful consideration. Current state laws governing the approval of a merger need to be updated to provide for greater disclosure of the merger's immediate impact, additional information from the parties on their future plans, and added protection for communities adversely affected by the merger. I believe that similar added protections at the Federal level may be appropriate as well.

As we continue to study and discuss the merger process on both the state and federal level, I hope that we can come to a resolution that works for the bank regulators, the banking industry, and all consumers. I look forward to working with Chairman Oxley, Congressman Frank, and Commissioner Antonakes as we strive to address this important issue.

That concludes my remarks. Thank you for your time.

Respectfully Submitted:

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