STATE OF CONNECTICUT

NEWS

State Treasurer Denise L. Nappier

Attorney General Richard Blumenthal

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BLUMENTHAL, NAPPIER RAISE SERIOUS CONCERNS

ABOUT FLEET MERGER PLAN; SAY STATE BUSINESSES, RESIDENTS MAY BE HURT BY LACK OF COMPETITION,

HIGHER FEES, REDUCTION IN LENDING LEVELS

State Officials will testify at Federal Reserve hearing in Boston tomorrow

Connecticut State Treasurer Denise L. Nappier and Attorney General Richard Blumenthal today expressed serious concerns about the planned merger of Fleet Financial Group Inc. and BankBoston Corp. Blumenthal urged the Federal Reserve Board to reject the proposed merger, saying the deal as it is currently structured would result in an anticompetitive banking environment for Connecticut consumers. Nappier said that Connecticut businesses and residents could face "substantial harm" in reduced access to capital, higher fees and diminished competition.

Blumenthal and Nappier will go to Boston tomorrow to testify at the lone public hearing being conducted by the Federal Reserve Board of Governors, and they criticized the Fed for rejecting their request for a public hearing on the merger in Connecticut. At a joint news conference, Nappier said "having just celebrated Independence Day, it is especially ironic that they would prevent the citizens of Connecticut from being heard in our own community regarding the dramatic financial implications of this merger."

"As currently planned, this merger of New England's two largest banks would tighten credit, raise rates, fees and costs of loans, reduce services to middle-market consumers and substantially undercut competition," Blumenthal said.

Nappier said: "If you're looking to buy your first home, or need a loan to start a new business, it may be getting tougher. If you've grown accustomed to competition keeping down bank fees or upgrading services, those days may be over."

Blumenthal expressed particular concern about the adverse impact on middle-market borrowers -- medium-sized businesses that are major employers, and indeed are the major source of new jobs and economic growth.

"If this merger is approved, no competitive force would remain in the Connecticut market to drive down costs and improve services," Blumenthal said. "Consumers would be the losers as Fleet expands its banking empire."

"Connecticut can ill-afford to stand vulnerable to the business practices of one powerful financial institution," Nappier said. "If this merger is to be the great advantage to Connecticut residents and businesses that Fleet is touting, there must - at the very least -be more evidence of a stronger commitment in the areas of customer service, community development and corporate citizenship."

Blumenthal expressed concerns about the middle market -- business customers that generally post annual revenues of between $10 million and $250 million. In that market, fewer banking options would be available, ensuring that fees would rise and a wide selection of services would diminish. These middle-market customers generally require services -- such as loans and lines of credit -- that exceed the reach of smaller, community banking institutions. Yet these customers are not large enough to obtain credit nationwide or to provide necessary financial services in-house.

Nappier said after an analysis of Fleet's lending data and business practices conducted by her office, she's most concerned that access to capital may substantially

"dry up" for critical segments of the Connecticut economy – especially small businesses and urban and rural communities. "Unless we receive stronger guarantees, the people and businesses of Connecticut could best describe this merger as a corporate example of doing more harm than good," Nappier said.

Fleet, in a proposal it calls a "clean sweep," has offered to divest 33 of BankBoston's 67 branches in Connecticut; no Fleet branches would be sold under the proposal. This plan is in a market that has seen the number of insured commercial banks in Connecticut drop from 69 banks with 676 branches in 1989 to 28 banks in 462 branches in 1996, the last year for which FDIC statistics are listed.

"Calling this plan a 'clean sweep' is clearly a misnomer," Blumenthal said. "It is the result of a worn out brush, not a broom. It certainly won't get anyone's award for antitrust, good housekeeping."

"Fleet is keeping too many large, significant pieces of the business. While lauding itself for a 'clean sweep' of BankBoston branches, it is retaining almost its entire platform of services," Blumenthal said, noting that Fleet wants to hold onto its large corporate customers, asset-based lending customers, high-tech customers and private banking customers.

Nappier noted that Fleet's record of single family loans to low and moderate income and minority borrowers declined substantially between 1995 and 1997, after the Fleet-Shawmut merger, and the bank's Community Reinvestment Act rating today in Connecticut is only satisfactory, compared with an "outstanding" rating in Massachusetts.

"I am deeply concerned by Fleet's history of post-merger lending performance as it relates to small business," Nappier said. "Fleet should be a leader obligated to formulate, promote and implement unfolding principles of community banking. That hasn't happened," Nappier said, "and unfortunately we see no evidence that it will if the merger plan as currently constituted is approved."

Blumenthal said it is unlikely that a buyer of 33 branches would have the same level of services and financial muscle as currently enjoyed by BankBoston, which has approximately 430 regional branches -- 67 of them in Connecticut.

"With all due respect, Fleet has proposed this anticompetitive merger. It is Fleet that should bear the risk that it may not receive a premium price for assets because the only suitable solution is to sell the assets en masse to a single purchaser," Blumenthal said. "If the correct competitive solution to the problem created by Fleet produces a lower profit, then that is the consequence that is borne by the merging party. Fleet wants to be able to have its anticompetitive merger and thwart the chances of a successful divestiture because it might not make as much money otherwise."

Nappier noted comments by Fleet chief executive Terrence Murray earlier this year that the merged bank "won't be for everyone.' "My concern," Nappier said, "is over just who is being left out."

Nappier and Blumenthal expressed skepticism that Fleet would remain committed to providing loans and other financial assistance under the Community Reinvestment Act. Fleet already has conceded that there will be a net decrease in some community lending after the merger.

Nappier noted that BankBoston has received international acclaim for its community banking model, and urged Fleet to commit itself to strengthening, rather than jettisoning, the community banking plan that has worked best at BankBoston in Massachusetts. "We need to see that level of commitment and more, not only in Boston but throughout Connecticut," Nappier said.

The Treasury is a major banking customer in Connecticut. Between them, Fleet and BankBoston account for 92 percent of all banking fees paid by the Treasury during the past two years. Nappier said that the competition between the two banks has contributed to a nearly one million dollar reduction in fees between 1994 and 1998, and raised concern that the elimination of competition would lead to a "dramatic and substantial" increase in fees, which would ultimately be borne by taxpayers.

"If approved, this merger will remake the financial landscape in Connecticut," Nappier said. "Recently, regulators in the telecommunications industry have insisted on meaningful competition and consumer choice. Financial services are no less important. Connecticut residents demand solutions that consider not only the corporate bottom line but small business start-ups and the family checkbook," Nappier said.

Nappier and Blumenthal also expressed concerns regarding:

- a repetition of disruptions of service to personal and business accounts due to the merger, such as occurred in the aftermath of the Fleet merger with Shawmut;
- Fleet's commitment to participation in the growth and development of Connecticut's economy, noting past actions that have moved critical components, such as the underwriting group, out of state; and
- A potential reduction in the level of philanthropic and community-based activity supported by the merged bank, as compared with past contributions by the two banks.

Already, the Attorney General's Office receives numerous complaints about Fleet among customers who believe that its fees tend to be excessive in amount and number, and that the minimum balances are not competitive. The complaints also center on home mortgages, credit cards and in general banking matters.

"Many relate to the imposition of fees that are excessive or wrongfully imposed, and delay in correcting errors," Blumenthal said. "Fleet is quick to impose fees -- but does not observe the same standard of care when it is required to act. We should work to avoid an increase in these complaints that may accompany an unhelpful banking behemoth."

"Fleet's commitment to the economy of Connecticut is open to doubt after this merger," Blumenthal said.

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