

SOUTHCOAST WORKFORCE DEVELOPMENT UPDATE:

The Local Economic Impact of Bank Mergers



Prepared for

**GREATER NEW BEDFORD
WORKFORCE INVESTMENT BOARD, INC.**

By



September 2006

UNIVERSITY OF MASSACHUSETTS DARTMOUTH CENTER FOR POLICY ANALYSIS

The University of Massachusetts Dartmouth Center for Policy Analysis is a multidisciplinary research unit that promotes economic, social, and political development by providing research and technical assistance to client organizations. The Center for Policy Analysis offers custom designed research and technical analysis in the areas of economic development, public management, program evaluation, and public opinion for government agencies, non-profit organizations, private businesses, and educational institutions. The Center for Policy Analysis does not pursue a predetermined research agenda, but is a flexible research organization responding on a timely basis to the problems and issues identified by client agencies.

Clyde W. Barrow, Ph.D., Political Science
Director

EXECUTIVE BOARD

Philip Melanson, Ph.D., Political Science
Chairman of the Board & Senior Research Associate

David Borges, M.P.A., Public Administration
Senior Research Associate

Chris Eisenhart, Ph.D., English
Senior Research Associate

William Hogan, Ph.D., Economics
Senior Research Associate

Toby Huff, Ph.D., Sociology
Senior Research Associate

Susan Krumholz, J.D., Ph.D., Sociology
Senior Research Associate

Spencer Ladd, Ph.D., M.F.A., Design
Senior Research Associate

Jeffrey Robinson, M.P.A., Public Administration
Senior Research Associate

Robin A. Robinson, Ph.D., Social Welfare
Senior Research Associate

Gail Russell, M.S., Ed.D., Nursing
Senior Research Associate

Shawna E. Sweeney, Ph.D., Political Science
Senior Research Associate

Paul Vigeant, M.A., Public Administration
Adjunct Research Associate

Luther Wallin, M.R.P., Regional Planning
Senior Research Associate

EXECUTIVE STAFF

David Borges, M.P.A., Public Administration
Senior Research Associate

Nina Galipeau, B.A., Sociology
Research Associate

Andrea Davis, Sociology
Assistant to the Director

ADJUNCT RESEARCH ASSOCIATES

Jeffrey Robinson, M.P.A., Public Administration
UMass Dartmouth Controller

Paul Vigeant, M.A., Public Administration
SouthCoast Development Partnership

Correspondence and inquiries should be addressed to: Center for Policy Analysis, University of Massachusetts Dartmouth, 285 Old Westport Road, North Dartmouth, Massachusetts 02747-2300 (telephone: 508-990-9660; fax: 508-999-8374).

Copyright © Center for Policy Analysis. All rights reserved. This document may not be reproduced in any form without prior written permission from the Center for Policy Analysis.

Website URL: www.umassd.edu/cfpa

Principal Authors: Nina Galipeau and Clyde W. Barrow

The information and analysis in this report does not represent an official statement or view of the University of Massachusetts.

Economic Research Series No. 59

TABLE OF CONTENTS

| | |
|--|---------------|
| EXECUTIVE SUMMARY | iii |
| 1.00 PURPOSE OF STUDY..... | - 1 - |
| 1.10 THE SOUTHCOAST FINANCIAL SERVICES CLUSTER..... | - 2 - |
| 1.20 BANKING AS A CRITICAL AND DECLINING EMPLOYMENT SECTOR | - 3 - |
| 1.30 CHANGES IN THE SOUTHCOAST BANKING INDUSTRY..... | - 3 - |
| 2.00 BANK OF AMERICA -- FLEETBOSTON | - 7 - |
| 3.00 WEBSTER FINANCIAL – FIRSTFED AMERICA..... | - 9 - |
| 4.00 SOVEREIGN BANCORP -- SEACOAST FINANCIAL..... | - 11 - |
| 5.00 ECONOMIC IMPACTS OF BANK CONSOLIDATION..... | - 13 - |
| 5.10 DEFINITIONS..... | - 13 - |
| 5.20 METHODOLOGY: THE IMPLAN MODELING SYSTEM | - 14 - |
| 5.21 Regional Purchases..... | - 15 - |
| 5.22 Trade and Freight Margins..... | - 16 - |
| 5.30 DIRECT ECONOMIC IMPACTS OF BANK CONSOLIDATION | - 16 - |
| 5.31 Quantitative Estimates | - 16 - |
| 5.32 Qualitative Analysis..... | - 17 - |
| 5.40 INDIRECT ECONOMIC IMPACTS OF BANK CONSOLIDATION | - 20 - |
| 5.41 Quantitative Estimates | - 20 - |
| 5.42 Qualitative Analysis..... | - 21 - |
| 5.50 INDUCED ECONOMIC IMPACTS OF BANK CONSOLIDATION..... | - 22 - |
| 5.60 TOTAL ECONOMIC IMPACTS..... | - 23 - |
| 6.00 CONCLUSION | - 25 - |
| SOURCES CONSULTED..... | - 27 - |

[This page left blank intentionally]

EXECUTIVE SUMMARY

This *SouthCoast Workforce Development Update* focuses on the banking industry, because a recent wave of mergers and acquisitions is having a significant and immediate impact on the SouthCoast workforce. More than a decade of on-going bank consolidation is having an impact on the South Coast's employment that is comparable to the decline of the fishing industry over the same period of time. Yet, there are few provisions for dealing with employment dislocation in the banking sector.

Direct Economic Impacts of the Bank Consolidation

Between 1993 and 2004, total South Coast employment in the banking industry dropped by about 24 percent from 2,206 to 1,668 employees.

- A focus group consisting of terminated Compass Bank employees found that only four of ten participants had found new employment since being terminated by Sovereign and that only two of these participants have found jobs with comparable pay and/or benefits.
- These declines are partly the result of productivity and efficiency improvements created by the introduction of automated banking services, such as telephone banking, online banking, and automated teller machines (ATMs).
- However, most job losses in the banking sector are directly attributable to mergers and acquisitions over the last 10 years:
 - In 1995, Fleet Financial Corporation acquired NBB Bancorp and Shawmut National Corporation to become the largest bank in New England. As a result, the NBIS headquarters in downtown New Bedford was closed and the SouthCoast lost 179 employees between 1995 and 1997.
 - In 1997, Bank of Boston acquired BayBanks in a \$2 billion merger, which resulted in the loss of twenty-nine bank units and just over 100 employees in the South Coast.
 - In 1999, Fleet Financial Corporation acquired BankBoston and Citizens Bank acquired USTrust Corporation. Between 1999 and 2001 alone, employment in the banking sector dropped from 2,017 to 1,597 employees.
 - Sovereign Bancorp acquired Seacoast Financial Services for \$1.1 billion in July 2004. Sovereign Bancorp slightly decreased its projected job loss from 350 employees to 310, including 230 employees at the Compass Bank headquarters in New Bedford, MA.
 - In May 2004, Webster Financial Corporation completed its acquisition of Swansea-based FirstFed America for \$465 million. Webster eliminated 153 employees at the Swansea headquarters.

- In April 2004, FleetBoston Financial merged with Bank of America (BofA) in a \$47 billion acquisition. In March 2005, it was confirmed that BofA had cut approximately 1,400 jobs in Massachusetts, more than double the amount of the initial job loss projection.

Indirect and Induced Economic Impacts of Bank Consolidation

- In 2004, the SouthCoast's banking industry made nearly \$51 million in local purchases that indirectly generated an additional 515 jobs with \$22.1 million in additional labor income and annual average wages of \$32,184. However, job losses and other cutbacks in the local area's banking sector have resulted in the indirect loss of 166 jobs and \$5.6 million in employee compensation over the last decade in other sectors of the regional economy.
 - The Center for Policy Analysis conducted key informant interviews with local vendors, which confirm that the closing of Compass Bank headquarters in New Bedford, Massachusetts has not only resulted in a number of layoffs in other local business sectors, but had a substantial negative impact on small businesses.
- In 2004, consumer expenditures by employees of the SouthCoast banking industry supported an additional 2,103 jobs in Bristol and Plymouth Counties with a total payroll of \$81.5 million. However, job losses and other cutbacks in the local area's banking sector have induced the additional loss of 678 jobs and \$23.4 million in employee compensation in other sectors of the regional economy.
- The total annual negative economic impact of local bank consolidation, including direct, indirect, and induced impacts is 1,382 jobs with an annual payroll of \$55.3 million (2004). This is approximately 1.1% of the SouthCoast's total ES-202 employment (2004). Job losses attributable to local bank consolidations are equivalent to 9.7% of the total *unemployment* in the SouthCoast area (14,300 unemployed).

1.00 PURPOSE OF STUDY

The Center for Policy Analysis was retained in 2001 by the Greater New Bedford Workforce Investment Board and by the Greater Bristol Workforce Investment Board to identify critical, emerging, and declining industries in the two Workforce Investment Areas (WIA).¹ The purpose of the studies was to provide the WIB's with economic base and occupational analyses to guide the implementation of workforce development policy in Bristol County and the SouthCoast Area.² These reports identified textiles and apparel, financial services, and seafood products as "critical and declining" industries, which means the industries employed at least 3 percent of the region's workforce (critical), but were experiencing significant employment losses (declining) that were projected to continue in future years.

These reports were supplemented in June 2004 with a *SouthCoast Workforce Development Update* that focused on the banking sector of the financial services industry, because a recent wave of mergers and acquisitions was having a significant and immediate impact on the SouthCoast workforce.³ This analysis of the local economic impacts of bank consolidation in the SouthCoast carries the previous update a step further by estimating the indirect and induced negative impacts of bank consolidation on other industries, as well as the micro-level impacts on terminated bank employees.

Consolidation has been one of the banking industry's most noteworthy trends since the late 1980s, when concerns about many banks' credit quality led to a wave of mergers and acquisitions (M&A) as strong banks took over weak or failing institutions. Bank mergers and acquisitions accelerated in the 1990s, before slowing more recently, until the impact of federal deregulation initiatives stimulated a another wave of mergers and acquisitions that is still underway. In November of 1999, the Gramm-Leach-Bliley Act was passed by Congress, which effectively repealed the Depression-era Glass-Steagall Act that restricted banks' ability to engage in debt and securities underwriting. The 1999 Act creates a new kind of financial holding company that is permitted to expand into a variety of business activities related to financial services, including the underwriting and selling of insurance and securities, conducting commercial and merchant banking, investing in and developing real estate, and other complementary activities.

Thus, the primary factor favoring further consolidation is competition, which has intensified pressure on banks to expand market share, improve efficiency, and offer a broader range of financial products. Consolidation can help banks fend off competition from other

¹ Clyde W. Barrow and David R. Borges, *Greater New Bedford Economic Base Analysis: Critical and Emerging Industries and Workforce Development Targets* (North Dartmouth, Massachusetts: Center for Policy Analysis, 2001), see, <http://www.umassd.edu/cfpa/docs/NBWIB.pdf>; Clyde W. Barrow, David R. Borges, and Stephen Andrade, *Greater Bristol Workforce Investment Area: Developing Strategies for Recruiting, Retaining, and Training the Workforce of Tomorrow; A Blueprint for Action* (Boston and North Dartmouth: Donahue Institute and Center for Policy Analysis, 2001), see, <http://www.umassd.edu/cfpa/docs/BWIB.pdf>.

² The SouthCoast includes the cities/towns of Acushnet, Dartmouth, Fairhaven, Fall River, Freetown, Lakeville, Marion, Mattapoisett, New Bedford, Rochester, Seekonk, Somerset, Swansea, Wareham, and Westport.

³ Nina Galipeau and Clyde W. Barrow, *SouthCoast Workforce Development Update: Banking* (North Dartmouth, Massachusetts: Center for Policy Analysis, 2004), see, <http://www.umassd.edu/cfpa/docs/banking.pdf>

commercial banks and from non-bank providers of financial services. Banks contend that they become financially stronger following a merger because they can reduce the acquired bank's operating costs, particularly in intra-market deals, where the duplication of bank infrastructure is high. In fact, most straight banking acquisitions have been intra-market deals rather than mergers between players operating in different geographic territories. Combining back-office operations and closing branches in overlapping service territories can cut the combined banks' costs by 20 percent or more in most cases. Other benefits of consolidation are expanded delivery networks, geographic and product diversification, and fewer competitors in a given market. Thus, according to Standard & Poor's *Industry Surveys* "consolidation may continue over the long-term as banks move to compete more efficiently in a less regulated environment" (Momio 2003).

However, the impact of bank consolidation on employment and employees is not sufficiently addressed by state and federal workforce development policy or the Community Reinvestment Act. Published reports by bank officials indicated in June 2004 that as many as 500 employees, or as much as 33 percent of the South Coast's remaining banking sector employment, was slated for termination by the end of 2006. Yet, there are few provisions for dealing with employment dislocation in the banking sector or in other "white-collar" sectors of the economy.

1.10 THE SOUTHCOAST FINANCIAL SERVICES CLUSTER

The Financial Services cluster includes banking, savings institutions, credit unions, insurance carriers, insurance agents, securities and commodities brokers, funds, trusts, and real estate. In the Greater New Bedford Workforce Investment Area Financial Services was identified as a critical but declining cluster that accounted for 3.2 percent of the area's total employment (2,080 jobs) in 1999. The largest employers in the cluster were banks (971) and insurance agents (390). However, total employment in the cluster decreased from 2,151 in 1992 to 2,080 in 1999 primarily due to employment declines among insurance carriers (-60.3 percent) and banks (-13.5 percent) (Center for Policy Analysis 2001a, 31).

In the Bristol Workforce Investment Area, Financial Services accounted for 3.6 percent of the area's total employment (4,749 jobs in 1999). The largest employers in the cluster were banks (1,985) and insurance agents (1,098). Total employment in the cluster decreased by 7.1 percent from 1990 to 1999. This decrease was also primarily due to employment declines among insurance carriers (-68.5 percent) and banks (-2.8 percent). Much of the decline in the insurance industry is due to consolidation and downsizing.

Banking is one of the major sectors of the SouthCoast's Financial Services cluster and many of the cluster's largest employers were in the banking sector, including Fleet Bank, First Federal Savings Bank of America, and SeaCoast Financial Services (Compass Bank).

1.20 BANKING AS A CRITICAL AND DECLINING EMPLOYMENT SECTOR

A cluster is a group of firms in two or more industries linked together by shared customer, supplier, or other relationships. *Clusters* of competitive industries tend to concentrate geographically to take advantage of natural resources, specialized research and development facilities, local concentrations of industry-relevant labor skills, industry-specific infrastructure, inter-modal transportation networks, and other synergies attributable to business clusters.

Critical clusters are defined as those that employ 3 percent or more of the total private workforce in a designated geographic area.

An *emerging industry* could fall below the 3 percent threshold if it is showing rapid growth (e.g., from 1% to 2% of total employment over last 10 years). Emerging and critical industries are typically identified based on past and projected rates of growth in the number of business units and employment within the designated geographic area.

The term *declining industry* refers exclusively to declines in employment. The term does not necessarily provide insights into the profitability and financial health of an industry, the demand for its products or services, or the condition of individual firms within an industry. In fact, an industry can be shedding total employment, while increasing annual output, sales, and profits through organizational restructuring or technological innovations that allow firms in the industry to produce greater volumes of a good or service with fewer employees. It is also possible for individual firms to be stable or expanding within a declining industry due to higher than average productivity, superior marketing, or the capture of niche markets where they face little competition from other firms in the industry. The term also does not describe the quality of the jobs created or lost in a particular industry, since an expanding employment sector can be creating low-wage jobs with few benefits, while a declining sector could be restructuring its workforce to rely more heavily on high-wage skilled employees that achieve higher rates of productivity due to their use of technology.

An industry may be both “critical and emerging” (i.e., important and adding employment) or it may be “critical and declining” (i.e., important and shedding employment).

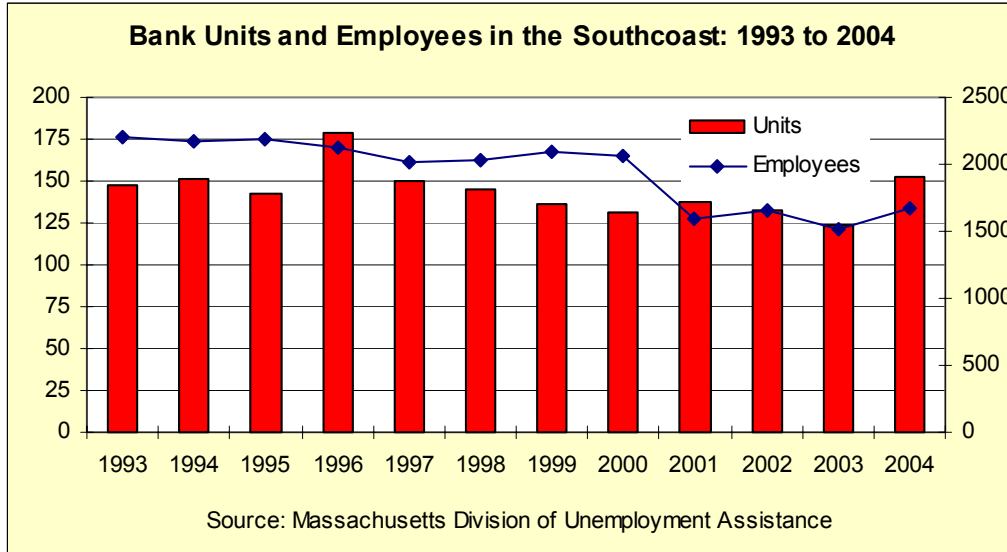
The Center for Policy Analysis identified Financial Services, and particularly banking, as a “critical and declining industry” in the Greater New Bedford and Bristol Workforce Investments Areas in its 2001 economic base analyses. This designation was based on past employment trends, but included the likelihood that employment would continue to decline as a result of further consolidation and restructuring in the banking sector and the growing use of automated banking services, such as telephone banking, automated teller machines (ATMs), and online banking that reduce demand for labor.

1.30 CHANGES IN THE SOUTHCOAST BANKING INDUSTRY

The SouthCoast has been witnessing a decline in banking industry employment for the past decade along with the rest of the country. Since 2001, the banking industry has been

characterized as a critical and declining industry in the Greater New Bedford and Bristol Workforce Investment Areas. Figure 1 displays the number of banking units and bank employees in the SouthCoast area from 1993 to 2004 (ES-202).⁴

Figure 1



Between 1993 and 2003, total employment in the South Coast banking industry dropped by about 31 percent, from 2,206 to 1,523 employees, while the total number of banking establishments decreased by twenty-four units. Although the economy recovered from a recession in the early 1990's, employment in the banking industry continued its long-term decline through the rest of the decade. In February 1995, Fleet Financial Corporation, based in Providence, Rhode Island, acquired NBB Bancorp, the parent company of the New Bedford Institute for Savings (NBIS), which had operated fifty-three bank branches in the South Coast area (O'Connor 1995). At this time, Fleet did not have a strong presence in the South Coast, but the acquisition resulted in the closing of two Greater New Bedford branches (Costa-Crowell 1995). At the time, Fleet officials stated that an undetermined number of NBIS's 600 employees would be eliminated, including the closing of the NBIS headquarters in New Bedford, MA (O'Connor 1995).

In the same year, Fleet Financial acquired Shawmut National Corporation, based in Hartford, Connecticut in a \$3.7 billion deal. After the acquisition was finalized, Fleet became the largest bank in New England and the ninth-largest bank company in the United States (Pope 1995). The Fleet/Shawmut merger resulted in the elimination of 1,200 Massachusetts employees from the Shawmut and Fleet workforce and the closing of about 160 bank branches (Pope 1995). Although Shawmut had operated branches in New Bedford, Dartmouth, and Wareham, it is not

⁴ Bank units are classified as depository credit intermediations by the North American Industry Classification System (NAICS) and it includes commercial banking, savings institutions, and credit unions. Before 2001, bank units were classified as depository institutions by the Standard Industrial Classification System (SIC), and included central reserve depository institutions, commercial banks, savings institutions, credit unions, and foreign banking agencies.

known if any of these branches closed due to the merger, but either way the South Coast lost 179 bank employees between 1995 and 1997.

In an effort to compete with Fleet Financial, Bank of Boston and BayBanks initiated a \$2 billion merger in 1996, which resulted in the elimination of sixty-five bank branches affecting approximately 400 employees across Massachusetts (Esposito 1997). By the end of 1997, the newly named BankBoston had eliminated a total of 2,000 employees statewide due to the consolidation of management, back office operations, and branch closures (Shook 1997). The SouthCoast lost twenty-nine banking establishments and just over 100 employees between 1996 and 1997, mainly due to the Bank of Boston/Baybanks merger. The job cuts were part of a plan to save approximately \$230 million a year by 1999 in the newly merged BankBoston.

The anticipated savings at BankBoston were barely realized before Fleet Financial Corporation announced it plans in March of 1999 to takeover BankBoston in a \$13 billion deal. By the end of 1999, the deal had been finalized and FleetBoston would become the nation's eighth largest bank with more than \$190 billion in assets. The merger was expected to produce savings of over \$700 million per year mainly by eliminating 5,000 jobs in New England by 2001 (Bartolotta 1999). At the time, bank executives estimated that the SouthCoast would lose another twenty-five bank branches due to the close proximity of Fleet and BankBoston branches in the area (Estrella 1999). Between 1999 and 2001, the SouthCoast lost seventeen bank units, a decrease of about eleven percent of total banking establishments in the area. During the same period, employment dropped by more than twenty percent from 2,017 to 1,597 employees.

At almost the same time as Fleet's acquisition of BankBoston, Citizens Bank agreed to pay \$1.4 billion for the acquisition of USTrust Corp. in June of 1999. The two banks combined had approximately 7,800 employees, and announced they would cut 800 of these employees in their attempt to save \$80 million a year by 2001 (Browning 1999). After the acquisition was completed, Citizens became the second-largest bank in the area, although it remained a medium-size company with \$28 billion in assets and 9 percent of the deposits in New England (www.bos.frb.org).⁵

For the past two years, after a drop in bank units and employment, the industry has been relatively stable with the number of bank units and employees rising slightly from 2003 to 2004. There were only a few small mergers between 1999 and 2003 that occurred mainly between small to medium-size banks, which had only a small impact on the number of banking units and employment in the South Coast. However, since January of 2004, as part of a nationwide trend in the banking industry, SouthCoast employment in the banking sector is again being affected by three of the largest bank mergers in the state. Between February 2003 and January 2004, twelve Massachusetts banks were acquired, and since then even larger national corporations have acquired four of the region's largest bank holding companies (Mason 2004). These acquisitions include FleetBoston Financial, the leading banking provider in the Northeast, Seacoast Financial Services, the parent company of Compass Bank and one of the SouthCoast's largest financial employers, Cape Cod Bank and Trust Company, with twenty-six branches in Barnstable and

⁵ BankBoston had about \$160 billion in assets and held about 26% of New England deposits by 2000 (www.bos.frb.org).

Plymouth Counties, and FirstFed America Bancorp, Inc., headquartered in Swansea, MA. These acquisitions have been part of a banking industry trend to reduce the demand for labor while simultaneously expanding services to new regions through acquisitions. With at least three of these large acquisitions still in the consolidation process, it is likely that the South Coast's banking industry will continue to eliminate significant numbers of employees.

2.00 BANK OF AMERICA -- FLEETBOSTON

The recent impacts on the SouthCoast began with the \$47 billion acquisition of FleetBoston Financial by Bank of America (BofA) in April 2004. Bank of America, which is based in Charlotte, North Carolina, has expanded throughout the South, Midwest, West, and now into the Northeast. Following the acquisition, FleetBoston and BofA will become the nation's second largest commercial bank after Citigroup, Inc. (Domis 2003). BofA will hold 9.8% of domestic deposits, barely falling short of the federal government cap which only allows banks to hold up to 10% of domestic deposits, unless the deposits are grown naturally (Domis 2003). In addition, BofA is projected to serve 30 percent of the businesses operating in its 29 state franchise, and will have the largest share of large corporate relationships, including 95 percent of the Fortune 500 companies (www.bankofamerica.com).

Following a 30 percent cost reduction standard with most bank mergers, the Fleet merger is planned to reduce costs by \$1.1 billion by 2005.⁶ According to the *Boston Globe*, industry analysts point out that job cuts are unavoidable when reducing costs of this magnitude. Even with a smaller cost reduction, job losses are inevitable due to the number of Fleet jobs that will overlap with BofA, primarily top managerial positions and back office workers (i.e. accountants, human resources, technical personnel) (Fitzgerald 2003).

Over the last decade, the introduction and expansion of automated banking services such as ATMs, telephone banking, and online banking have further reduced the demand for labor in the banking industry. The larger bank corporations tend to rely more heavily on these types of services; thus, the acquisition of the smaller, more personalized companies has further reduced the need for employees. BofA describes on its website that “[after the merger is complete] it will feature the most extensive and convenient delivery network ... more than 16,500 ATMs, award-winning online and electronic bill pay services and 24-hour telephone banking” (www.bankofamerica.com).

As a result of the merger, BofA will eliminate approximately 12,500 employees nationwide within the next two years, including at least 500 employees from Massachusetts⁷, according to a report released in May for the Massachusetts's Department of Labor and Workforce Development (Talcott 2004a). The report also revealed that jobs in human resources, marketing, legal, and technical professions will take the deepest cuts because these positions overlap with positions at BofA headquarters in North Carolina. As for laid-off Fleet employees, they are being offered a severance package which may include up to one year's salary for those earning over \$75,000, and up to 39 weeks worth of income for those making below that amount, all of which is determined by the number of years employed (Talcott 2004b). However, because BofA has no branches in the Northeast, it is assumed that most branch workers in the South Coast will not be affected by the job cuts taking place.⁸

⁶ This is \$1.6 billion before taxes or approximately 25% of Fleet's costs if measured alone.

⁷ Not including the number of layoffs.

⁸ Layoffs in the SouthCoast are unlikely to follow this particular merger, since any potential intra-market efficiencies (i.e., branch closings) have already been achieved by Fleet over the last decade through previous mergers and acquisitions (i.e., NBIS, Bank of Boston, and Baybanks). Consequently, any layoffs and office closings due to the BofA/Fleet merger will likely occur elsewhere in the country.

Besides Fleet workers, there are a number of law firms, advertising agencies, and other Massachusetts businesses that fear losing one of their biggest clients in FleetFinancial. As part of the merger, BofA executives claim that part of reducing costs will include renegotiating vendor contracts and reducing marketing costs. Therefore, reducing business with New England vendors is inevitable and has already taken place in some respects. Ultimately, in an attempt to reduce costs, the mergers inevitably affect employment in other sectors of the region's economy (Talcott 2004c).

Following BofA's publication of projected job losses, the corporation began negotiating deals with state organizations to meet its community-lending requirement. The Community Reinvestment Act requires regulators to consider a bank's lending record when it wants to buy another bank, therefore, the bank must show that it has given a sufficient amount of credit to low to moderate income communities they serve (Nicklaus 2004). This requirement to foster community development gives banks such as BofA an incentive to negotiate with activists during an acquisition, and as a result, BofA has already pledged \$750 billion for community development efforts, including affordable housing loans (Talcott 2004d). While this is a record amount for such programs, many opponents of the acquisition, including U.S. Representative Barney Frank (D-Newton), believe the pledge is too vague and may still not mitigate the harm done to communities within the state (Talcott 2004d).

While banks must reach a certain requirement in making small business loans and affordable housing loans when merging or acquiring a new bank, the Community Reinvestment Act makes no provisions to require funding for job training or career transition services, which is becoming a growing necessity in this critical and declining industry. While the community receives assistance by area banks, none of the funding is required to serve employment issues that may arise from the bank itself. Yet, in March of 2005, it was confirmed that BofA had cut approximately 1,400 jobs in Massachusetts, more than double the amount of the initial job loss projection (Talcott 2005).

3.00 WEBSTER FINANCIAL – FIRSTFED AMERICA

In May 2004, the Connecticut based Webster Financial Corporation completed its acquisition of FirstFed America Bancorp, Inc., based in Swansea, Massachusetts, and the holding company for First Federal Savings Bank, in a 465 million dollar bid. With \$17 billion in assets, Webster has grown to become the nation's 46th largest bank, and will become the largest independent bank based in southern New England (phx.corporate-ir.net). The acquisition will bring nineteen Webster branches to southeastern Massachusetts, and seven to Rhode Island.

Although Webster executives claim they plan to keep all of First Federal's branches open, they could not specify how many jobs would be cut in the SouthCoast. As of May 2004, Webster eliminated 153 employees (out of the 750 FirstFed employees) at the Swansea headquarters, leaving only 50 employees at FirstFed's headquarters in Swansea (Ortiz 2004a). According to *The Standard Times*, employees involved with administration and management are taking the brunt of the job cuts "as bank executives aggressively eliminate redundant administrative and operational functions" (Ortiz 2004a).

[This page left blank intentionally]

4.00 SOVEREIGN BANCORP, INC. -- SEACOAST FINANCIAL

While the acquisition of FirstFed has left many Southcoast residents without employment, perhaps the biggest impact on the region will be the acquisition of Seacoast Financial Services by Sovereign Bancorp, which was announced in January 2004. Seacoast Financial, the holding company for Compass Bank and Nantucket Bank, is based in New Bedford, Massachusetts, and has been described as the “cornerstone of downtown New Bedford’s revitalization” (Ortiz 2004b). Seacoast was the largest independent bank holding company in Massachusetts, serving southeastern Massachusetts through forty-seven Compass Bank branches, and the largest financial service employer in the Southcoast region⁹ (ir.thomsonfn.com). Seacoast Financial is in the latter stages of acquiring Abington Savings Bank, which, as a result, will also be acquired by Sovereign.

With the \$1.1 billion merger, Sovereign will pick up sixty-seven branches to add to the 177 branches that operate in Massachusetts, making it the third largest local bank (Patriot Ledger Staff 2004). Sovereign will close down twenty branches across the state, and by 2005, at least twelve Compass branches, including those in Fall River, New Bedford, Seekonk, and Westport, which overlaps with Sovereign branches, will be eliminated (Adams May 15, 2004). Similar to the Fleet acquisition and many other mergers, Sovereign plans to reduce costs by about thirty percent.

As part of the cost savings, about 350 employees will be laid off in southeastern Massachusetts, which is more than thirty percent of the jobs at Compass Bank and Abington Savings Bank combined (Ortiz 2004c). Coupled with the projected 150 lay-offs due to the acquisition of FirstFed, the SouthCoast could lose more than 500 jobs within the next year, not including the jobs lost as a result of the FleetBoston acquisition. More than half of the total job cuts (230 lay-offs) in the Seacoast Financial acquisition took place at the Compass Bank headquarters in New Bedford¹⁰ (Nicodemus 2004). Similar to the other bank mergers, most of the positions being eliminated are back office jobs such as human resources, marketing, and clerical positions (Ortiz 2004c).

About 120 employees at Compass Bank’s New Bedford headquarters, and an undetermined amount of employees at the Weymouth branch, will be able to compete for eighty-two new positions at Boston or Rhode Island locations. But if employees opt not to apply, they were to be denied a severance package.

Many elected officials, consumer advocates, and banking experts are deeply concerned that the acquisition of Seacoast Financial will severely impact New Bedford and Southeastern Massachusetts. The Community Reinvestment Act, which may prohibit banks from buying other banks if it has a negative impact on the community, may have prompted Sovereign to make a \$1.2 million commitment in New Bedford’s Downtown Loan Pool, which will benefit small businesses (Ortiz 2004c). In addition, Sovereign has committed to spend \$600,000 on charitable contributions each year and is already a leading lender in the statewide affordable mortgage

⁹ Approximately 832 employees (Ortiz 2004c).

¹⁰ Sovereign had initially stated that they would cut 165 employees and retain 87 at the New Bedford headquarters (Patriot Ledger 2004).

program. Thus, whether Sovereign's community reinvestment in New Bedford will adequately mitigate the economic effects caused by the acquisition, primarily the 350-person lay-off, is an open question. More recently, Sovereign Bancorp slightly decreased its projected job loss from 350 employees to 310, including 230 employees at the Compass Bank headquarters in New Bedford.

However, there is good reason to believe that mergers and acquisitions among Massachusetts banks will continue for the foreseeable future and this is particular true for Sovereign Bancorp, Inc. On May 31, 2005, Philadelphia-based Sovereign Bancorp, Inc. completed a deal with Banco Santander Central Hispano, S.A. that gave it a 19.8% share of Sovereign. Since May of 2006, Santander has increased its stake in Sovereign to 24.9% through stock purchases on the open market. Banco Santander Central Hispano, S.A., provides retail banking services throughout Europe and Latin America, including Puerto Rico, Mexico, Chile, Columbia, and Uruguay. The company is based in Madrid, Spain, but has majority shareholdings in a number of Latin American businesses and maintains strategic investments in a number of European banking companies. For fiscal 2005, the Banco Santander had commercial revenues of €18.2 billion (US \$22.6 billion).

Jay S. Sidhu, Sovereign's CEO, has publicly stated that Santander would eventually own Sovereign and that if for some reason a sale to Santander does not work out, Sovereign is positioned to strike a deal with another major bank holding company. Sidhu has emphasized in comments to the press and to stockholders that Sovereign will eventually need to give up its status as an independent company and that a merger is its "only option...in being a national player" (Rieker 2006). Under the current agreement with Santander, the Madrid-based bank has the right to buy the rest of Sovereign's shares for more than \$40 a share from mid-2008 through mid-2009 and can then purchase shares without a set price until 2011 (Lindsay 2006).

5.00 ECONOMIC IMPACTS OF BANK CONSOLIDATION

5.10 DEFINITIONS

Economic impacts measure the importance of an economic activity primarily in terms of the employment and personal (labor) income generated by that activity:

Employment is the number of people employed by establishments in the banking industry, including wage and salary employees, full-time and part-time employees, and self-employed persons.

Labor income is the wages, benefits, and proprietors' income derived from employment that is linked geographically to establishments in banking industry.

Economic impacts consist of direct impacts, indirect impacts, induced impacts, and total impacts. *Direct impacts* are the economic activities carried out at a business establishment or construction project and are therefore an immediate consequence of the economic activity that would not have occurred in the absence of the business establishment or construction project.

Indirect impacts derive primarily from off-site economic activities that are attributable to the identified business establishment. These economic activities occur mainly as a result of *non-payroll expenditures* by the business within a defined local area (i.e., town, city, county, metropolitan statistical area). Local expenditures include a range of operating expenses such as construction materials, office supplies, motor transport, horticultural services, furniture, utilities, maintenance and repairs, business machines, and so forth. Indirect impacts differ from direct impacts insofar as they originate entirely off-site, although the indirect impacts would not have occurred in the absence of the identified business establishment. *Induced impacts* are the multiplier effects of the direct and indirect impacts created by successive rounds of spending by employees and proprietors.¹¹ *Total impacts* are the sum of the direct, indirect, and induced impacts.

Economic impacts are often calculated separately for the *operations phase* and *construction phase* of an establishment. The operations phase of an establishment generates economic impacts that continue as long as the facility remains in existence. The economic impacts of construction and other capital expenditures are necessarily limited and temporary in duration and last only so long as construction and related capital purchases are underway. This economic impact analysis focuses exclusively on the economic impact of on-going operations, since data on capital expenditures and industry-related construction is not available.

¹¹ Most of the take home-home income earned by project employees is spent locally. Some of this spending becomes income to local individuals who provide services to construction employees. Some the spending by construction employees goes to local businesses and becomes income to the business owners and their employees. Subsequently, part of these second-round incomes are also spent locally and thus become income to another set of individuals. As successive rounds of spending occur, additional income is created in the local area, region, and state.

5.20 METHODOLOGY: THE IMPLAN MODELING SYSTEM

The indirect and induced economic impacts of the Hanscom Air Force Base complex are specified using IMPLAN (IMpact Analysis for PLANing), which is an econometric modeling system developed by applied economists at the University of Minnesota and the U.S. Forest Service. The IMPLAN modeling system has been in use since 1979 and is currently used by over 500 private consulting firms, university research centers, and government agencies. The Center for Policy Analysis has been a licensed IMPlan user since 1999 and regularly employs its econometric modeling system in conducting economic and fiscal impact analyses.

The IMPLAN modeling system uses combines the U.S. Bureau of Economic Analysis' Input-Output Benchmarks with other data to construct quantitative models of trade flow relationships between businesses and between businesses and final consumers. From this data, one can examine the effects of a change in one or several economic activities to predict its effect on a specific state, regional, or local economy (impact analysis). The IMPLAN input-output accounts capture all monetary market transactions for consumption in a given time period. The IMPLAN input-output accounts are based on industry survey data collected periodically by the U.S. Bureau of Economic Analysis and follow a balanced account format recommended by the United Nations.

IMPLAN also includes social accounting data (e.g., personal income and gross state product) that makes it possible to measure non-industrial transactions such as the payment of indirect taxes by businesses and households. The IMPLAN data base provides data coverage for the entire United States by county and has the ability to incorporate user-supplied data at each stage of the model building process to insure that estimates of economic impacts are both up-to-date and specific to an economic impact area.¹² IMPLAN can construct local input-output models in units as small as five-zip code clusters.

IMPLAN's Regional Economic Accounts and the Social Accounting Matrices are used to construct local, county, or state-level multipliers specific to an impact area. Multipliers describe the response of an economy to a change in demand or production. The multipliers allow economic impact analysis to move from a descriptive input-outputs model to a predictive model. Each industry that produces goods or services generates demand for other goods and services and this demand is multiplied through a particular economy until it dissipates through "leakage" to economies outside the specified area. Thus, multipliers calculate the response of the economic impact area to a change in demand or production.

IMPLAN models *discern and calculate leakage* from local, regional, and state economic areas based on workforce configuration, the inputs required by specific types of businesses, and the availability of both inputs in the economic area. Consequently, *economic impacts that accrue to other regions or states as a consequence of a change in demand are not counted as*

¹² The IMPLAN modeling system draws on a variety of statistical sources, including the Bureau of Labor Statistics Growth Model, Bureau of the Census, ES-202 employment and earnings data, the Regional Economic Information System (REIS), and the Bureau of Economic Analysis Gross State Product data.

impacts within the economic area. The model accounts for substitution and displacement effects by deflating industry-specific multipliers to levels well below those recommended by the U.S. Bureau of Economic Analysis. In addition, multipliers are applied only to *personal disposable income* to obtain a more realistic estimate of the multiplier effects from increased demand. The reliability of these estimates has been proven through empirical testing (Department of Commerce 1981; Brucker et al 1990).

The Center for Policy Analysis built a combined input-output models for Plymouth and Bristol Counties using the IMPlan Professional 2.0 model building software and data packages. The data used in the model are for 2002, which is the latest available. Where necessary, all inputs were converted to 2002 dollars using appropriate deflators (producer price indices for industrial commodities and the personal consumption expenditure deflator for personal income). Model outputs are then converted back into 2004 dollars. A predictive model is constructed by specifying industry output for a specific economic area, which is then applied to the industry multipliers for that particular region. Based on these calculations, the model estimates final demand, which includes employment, employee compensation (excluding benefits), and point-of-work labor income (including benefits).

It is possible to estimate the total economic impact of bank consolidations simply by entering the industry's employment losses into the econometric model. This method assumes that the production function is the same as the average of the various industry sectors in the state. This allows the model to estimate the negative indirect impacts or reduced local purchases of inputs. These reductions are distributed among IMPlan's 528 industrial sectors using the model's breakdown of the regional banking industry's production function, while applying the appropriate regional purchase coefficient for the industry to estimate the negative indirect impacts generated by employment losses in the banking industry.

The model also applies the ratio of personal consumption expenditures to estimates of employee compensation in the industry to account for taxes and individual savings. The remaining disposable income is then distributed among IMPlan's 528 industrial sectors using the model's breakdown of personal consumption expenditures for all households, while also applying the appropriate regional purchase coefficient to each industry to estimate the negative induced impacts generated by employment losses in the banking industry.

5.21 Regional Purchases

The initial IMPlan data details all purchases in a given area, including imported goods and services. Importantly, however, IMPLAN's Regional Economic Accounts exclude imports to an economic area so the calculation of economic impacts identifies only those impacts specific to the designated economic impact area (e.g., Bristol County). IMPLAN calculates this distinction by applying Regional Purchase Coefficients (RPC) to predict regional purchases based on an economic area's particular characteristics.¹³ The Regional Purchase Coefficient represents the proportion of goods and services that will be purchased regionally under normal

¹³ The Regional Purchase Coefficient (RPC) for the SouthCoast banking industry is 56.8%, which means that \$56.80 out of every \$100 of production inputs is purchased from a local vendor.

circumstances, based on the area’s economic characteristics described in terms of actual trade flows within the geographic area.¹⁴

5.22 Trade and Freight Margins

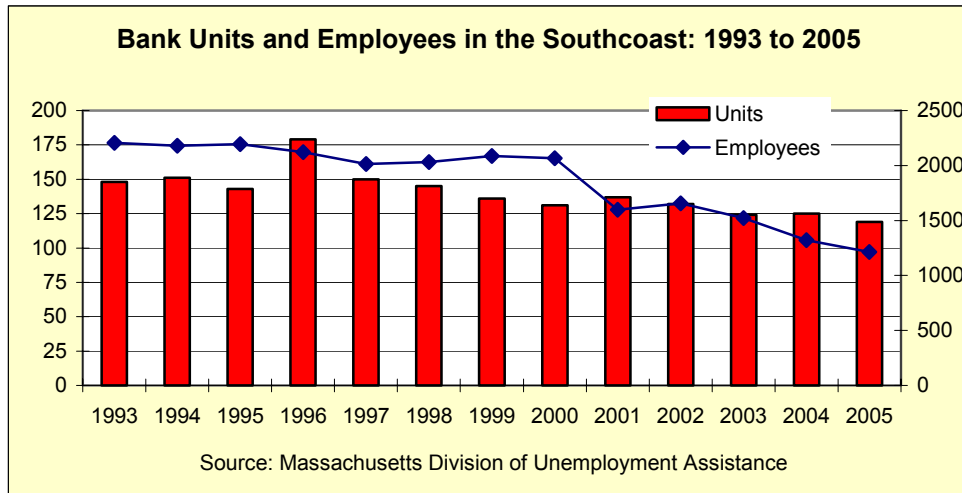
When establishments in the banking industry purchase goods or services, the expenditures cover at least the price of the goods or services, but it may also include the cost of shipping, insurance, wholesale margin, retail margin, and brokerage fees. IMPlan provides sector-specific margins to account for these “exported” expenditures, which are also subtracted from the regional economic impact.

5.30 DIRECT ECONOMIC IMPACTS OF BANK CONSOLIDATION

5.31 Quantitative Estimates

Figure 2 displays the number of banking units and bank employees in the SouthCoast area from 1993 to 2004 (ES-202).¹⁵ Total employment in the South Coast banking industry dropped by about 24 percent from 2,206 in 1993 to 1,608 in 2004, while the total number of banking establishments increased slightly from 148 to 152.

Figure 2



¹⁴ An inherent weakness of a single-region input-output model, such as IMPlan, is that it cannot capture the *feedback effects* that result when purchases from a supplier outside the region leads to additional purchases within the region by that supplier or suppliers. For example, a local bank might purchase desktop computers from Dell Computer in Austin, Texas, which would then purchase semiconductors from Intel Massachusetts, which would in turn purchase regional banking services in Massachusetts. It is possible to construct a multi-region input-output model to capture these feedback effects, but such a model requires a great deal of cost-intensive data collection and is not supported by the IMPlan software.

¹⁵ Bank units are classified as depository credit intermediations by the North American Industry Classification System (NAICS) and it includes commercial banking, savings institutions, and credit unions. Before 2001, bank units were classified as depository institutions by the Standard Industrial Classification System (SIC), and included central reserve depository institutions, commercial banks, savings institutions, credit unions, and foreign banking agencies.

The loss of 538 jobs in the banking industry during this time accounts for the direct loss of \$26.3 million in annual payroll (2004 dollars). It is certainly likely that many employees in this sector eventually migrate into jobs in other industries. However, bank consolidation tends to centralize many jobs and functions at other locations, such as headquarters functions and back office operations, rather than eliminate them completely. Consequently, their loss to the local area constitutes a genuine and permanent loss of employment opportunities in a high wage sector over what would have been available in the absence of the mergers, acquisitions, and other forms of consolidation.

5.32 Qualitative Analysis

Seacoast Financial, the holding company for Compass Bank and Nantucket Bank, was the largest independent bank holding company in Massachusetts, serving southeastern Massachusetts through forty-seven Compass Bank branches, and the largest financial service employer in the Southcoast region (Sovereign 2004).¹⁶ Once described as the “cornerstone of downtown New Bedford’s revitalization” (Ortiz 2004a), the Compass Bank headquarters in New Bedford took the brunt of more than half of the total 310 job cuts implemented as part of Sovereign’s cost savings plan following its acquisition of Seacoast Financial (Patriot Ledger 2004).¹⁷

Center for Policy Analysis staff conducted a focus group with ten former Compass Bank employees at the New Bedford Career Center on May 24, 2005 to obtain a sense of how these job reductions were implemented by Sovereign. The former employees who participated in the hour-long focus group, included two Mortgage Processors, a Consumer Lending representative, an Assistant Purchasing Manager, a Records Center Manager, an Assistant Vice-President for Corporate Services, an Assistant Vice-President for Mortgage Servicing, an Electronic Services specialist, an Assistant Loan Accounting Operations Manager, and a Support Technician. Focus group participants indicate that Sovereign Bancorp was more willing to keep Compass Bank’s retail workers as opposed to employees in back-office or lending operations.

According to focus group participants, employees at the New Bedford headquarters were told about the pending acquisition by the Vice President of Operations on January 16, 2004, approximately six months prior to the acquisition being finalized. Employees were brought together in the corporate cafeteria and were informed in a large meeting. However, participants mentioned that preceding the formal announcement, rumors and speculation began circulating in the workplace regarding a potential merger or acquisition that were stimulated by a flurry of requests for records that indicated a due diligence process was underway. Approximately four months later, on May 15, 2005, employees received written notification of their termination. Within one or two days, every terminated employee had received notice. One participant pointed out that in her department, Corporate Services and Records, only two out of fifty employees were retained by Sovereign.

¹⁶ Approximately 832 employees (Ortiz 2004a).

¹⁷ Sovereign has eliminated 230 positions at the New Bedford headquarters (Nicodemus 2004).

The focus group described themselves and their fellow employees as having “high emotions” after being formally told that Compass Bank was being sold to Sovereign. In addition to feeling “very sad,” participants also felt unsure of their future. In an attempt to ease these emotions, participants were told that the acquisition would be “good for the stockholders.” The participants also mentioned that they initially became distraught much earlier after learning that the company had gone public, because they anticipated that such a move laid the groundwork for a potential merger or acquisition sometime in the future. Consequently, the acquisition and termination announcements did not come as any real surprise, but the reality of the situation did not take hold until most employees were actually unemployed (see below).

Participants were told that everyone could interview for another job at Sovereign. However, only one of the focus group participants said they were given the opportunity for an interview. Her job was eliminated during consolidation so she was offered a different position, which she declined due to personal preference. In addition, as one participant pointed out, all of the back office positions being offered (which had operated primarily out of the New Bedford headquarters) were located in Pennsylvania, East Providence, or Dorchester, which made it difficult for many employees to seriously entertain comparable available positions.

Seven out of the ten participants claimed they did not start looking for a new job until they were actually laid-off by Sovereign. While there were different termination dates for different employees, most would not receive severance packages if they left their job before the termination date, which discouraged most employees from making any serious effort to search for a new job before their effective termination. The severance package included medical and financial benefits of two weeks for every year employed with a maximum of six months worth of benefits following termination of employment. Some participants claimed that a lack of motivation immediately following the lay-offs also affected the momentum of their job search.

Four out of ten participants have now found a new job (i.e., one year after receiving notice of termination). The focus group participants who are currently employed stated it took them approximately six months of job searching before finding suitable employment. For those that have found a new job, only two claim to have pay or benefits comparable to their previous job at Compass Bank. Those who have found new jobs now hold positions as:

- Assistant Purchasing Manager with comparable pay/benefits
- Quality Control at a consulting company (temporary position, not comparable)
- Loan Services with comparable pay/benefits
- Office Assistant (not comparable, but may lead to advancement within the company).

Among the participants who have not found a new job, all agree that over-qualification has been the primary obstacle in their job search in the SouthCoast. Participants indicate that their extensive resumes have hindered employers from hiring them because they might demand too much money or be dissatisfied with less responsibility. Instead, participants feel as though employers would rather hire recent college graduates, rather than experienced employees, because they are more likely to accept a lower salary. One participant who had been taking classes to train for work in the health care field claims that the jobs she applied for over several

months are awarded to others because they accept less money. Other participants claim they applied for jobs as office assistants and bank tellers at other companies even though they consider themselves over-qualified for these positions. In an effort to remedy this occurrence, a few participants went so far as to “dummy down” their resumes in hopes that employers might offer them a lower paying position. Some participants indicated that employers may have doubts about hiring someone who is unemployed despite their experience and suspect that terminated employees as somehow at fault.

Several participants noted that they had very specialized skills in company-based software and operating systems that were not generally transferrable, unlike the generic wordprocessing, spreadsheet, and database skills of recent college graduates. Consequently, all of the focus group participants took computer training courses offered by Compass Bank as part of their severance package in addition to taking computer training classes offered at the New Bedford Career Center. For those that did get laid-off, Compass Bank conducted a two day session of software training to help employees expand on their existing computer skills. In addition, Compass Bank brought in Keystone Associates, an employment consulting firm, to help laid-off workers write resumes, learn interviewing skills and job search skills.

All of the focus group participants considered this training to be important because many employers are now seeking people trained in Quick-Books, MS Access, and MS PowerPoint, which many had not utilized at Compass Bank. One participant also mentioned taking Continuing Education courses in business management at UMass Dartmouth, while another person has enrolled in psychology courses.

The financial impact on most of the focus group participants was less dramatic for participants who are single or without children living at home, although they still claim to have cut back on many expenses. Participants who have children, or whose husbands are also not working, say the financial impact on their families has been severe. One participant who is widowed with a child in college indicated that it has been very difficult to support her family financially since the termination.

All of the focus group participants have utilized services offered at the New Bedford Career Center, which they were informed of when they received their first unemployment check. Participants expressed a great deal of satisfaction with the Career Center staff, which they viewed as exceptionally helpful in assisting them with finding new employment. They claim to have a renewed sense of hope after leaving the facility, “ten years ago it felt degrading coming here, now it’s a good place to come to.” However, the focus group participants believe that the federal government and other government agencies should give more attention to the impact of bank mergers and acquisitions on bank employees and customers, which is part of a merger’s community impact.

5.40 INDIRECT ECONOMIC IMPACTS OF BANK CONSOLIDATION

While the direct effects on employment are significant, this study also seeks to explore the effects of the acquisitions on other local businesses, particularly former Compass Bank vendors in the New Bedford, Massachusetts area. Corporate headquarters are often a symbol of economic achievement for the host community that attracts more businesses, community investment, and high-paying professionals to the surrounding area. When a corporate headquarters is relocated or closed, that corporation’s spending on local goods and services is dramatically reduced or eliminated, which can affect the financial health of other businesses in other sectors of the economy (Stern 2003; Nicodemus 2004).

5.41 Quantitative Estimates

In 2004, the SouthCoast’s banking industry made nearly \$51 million in local purchases that indirectly generated an additional 515 jobs with \$22.1 million in additional labor income and annual average wages of \$32,184. However, job losses and other cutbacks in the local area’s banking sector over the last decade have resulted in the indirect loss of 166 jobs and \$5.6 million in employee compensation in other sectors of the regional economy.

The IMPlan modeling system is able to specify the sectoral distribution of these indirect negative impacts by calculating the regional effect of local purchases based on the BEA’s input-output accounts for Bristol and Plymouth Counties. The negative indirect impacts were distributed among 89 of Implan’s 538 sectors with the largest impacts occurring in temporary employment services, management consulting services, accounting and bookkeeping services, courier and messenger services, business support services, and legal services among others (see Table 1). The overall reduction in banking employment reduces the demand for temporary labor, while the consolidation of headquarters functions at other locations reduces the local demand for a variety of profession and business support services.

Table 1

| Sectoral Distribution of Negative Indirect Employment Impacts Attributable to Bank Consolidation, 1993 to 2004 | | |
|---|---|------------------------------|
| Implan Code | Implan Description | Indirect Unemployment |
| 43 | Maintenance & repair of nonresidential bldgs. | -8.2 |
| 399 | Couriers & messengers | -9.3 |
| 400 | Warehousing & storage | -5.5 |
| 431 | Real estate | -6.3 |
| 437 | Legal services | -5.1 |
| 438 | Accounting & bookkeeping services | -12.2 |
| 444 | Management consulting services | -13.6 |
| 454 | Employment services | -26.8 |
| 455 | Business support services | -8.6 |
| 481 | Food services & drinking places | -7.3 |

Note: Table only includes sectors with negative indirect employment impacts of >=-5.

5.42 Qualitative Analysis

The acquisition of Seacoast Financial Services, based in New Bedford, Massachusetts, by mega-bank Sovereign Bancorp, based in Pennsylvania, alarmed many government and business leaders in the SouthCoast due to its potential impact on other businesses in the SouthCoast area. As of October 2004, all services delivered from Seacoast's New Bedford headquarters have been eliminated, and with no services to deliver, transactions with local vendors have become virtually non-existent (Ortiz 2004c). As with other bank acquisitions, Sovereign Bancorp has eliminated and/or reduced much of Compass Bank's dealings with New Bedford-area vendors in favor of their own out-of-state vendors. This "ripple effect" of corporate relocation and consolidation has economic impact beyond the direct effects on employment at Compass Bank, but also affects Compass Bank's local vendors as local business relationships are terminated during the consolidation process.

Center for Policy Analysis staff conducted three key informant interviews with former Compass Bank vendors at the New Bedford Career Center on May 24, 2005 to obtain a sense of how these negative indirect impacts were implemented by Sovereign. Two of the three business owners interviewed supplied printing services for Compass Bank. One owner described his services as mostly "photocopy work," while the other printer provided Compass Bank with a full range of printing services, including brochures, receipts, folders, forms, etc. Both business owners had been providing services to Compass Bank since the bank's came into existence seven years earlier. The third interviewee supplied promotional products, awards, and gifts to Compass Bank for distribution to employees, customers, and others. All of the businesses were small proprietorships.

All of the vendors report that Sovereign did not give any formal notice that local business transactions would be terminated, but were informed by word of mouth or, more directly, by one of the Compass Bank purchasers. Orders rapidly tapered off within three months of Sovereign's closing on the Compass Bank acquisition, although vendors note that the volume of orders had been decreasing during all of 2004 prior to the formal completion of the acquisition.

All of the interviewees claimed that Compass Bank's acquisition had a substantial impact on their business. One printer noted that work for Compass Bank was worth approximately \$20,000 dollars per year in orders for his business, which made Compass Bank one of his top ten customers. The other printer identified Compass Bank as the company's "single biggest customer" until business transactions were terminated by Sovereign. The business owner supplying promotional products claimed to suffered a 30 percent loss of income since the acquisition. One of the business owners claimed to have laid-off two employees after the bank acquisition, with six employees remaining at the establishment, while another business lost the equivalent of one-half person with eight employees remaining at the establishment. The third business owner had to dismiss one employee as a result of the bank's acquisition. These micro-level claims are consistent with the econometric estimates generated by the IMPlan model.

In addition, one interviewee observed that his business had recently invested heavily in new equipment before learning about the bank's acquisition by Sovereign. He stated that this investment had been made specifically "to keep them [Compass] satisfied," because Compass

had itself been expanding by acquiring smaller banks, such as Abington Savings Bank, and this was resulting in expanding orders from Compass.

Only one of the interviewees had provided any goods or services to Sovereign Bank since they acquired Compass, although Sovereign had placed only one order with that business over the past year. The other two interviewees have never been contacted by Sovereign, and have thus lost all previous business with Compass. One of the participants went so far as to write a letter to Sovereign describing the company's capabilities and history as a vendor, but never received a response to the letter. The interviewees stated that since their business dealings were with Compass Bank's headquarters and not the local branches, they assume that Sovereign is now retaining vendors near their headquarters in Pennsylvania to provide the same goods and services.

All of the business owners interviewed are now searching for new customers to fill the gaps in business lost after the sale of Compass Bank. The printing service providers observe that many companies are utilizing the internet with greater frequency, which is reducing demand for printing services. This makes their search for new or growing customers even more difficult. In addition, as one participant pointed out, "this [internet use] coupled with the fact that in this area there are fewer and fewer businesses, makes it difficult..." As a result, one of the interviewees is exploring other revenue streams in addition to printing services, such as mailing services and digital archive services to supplement their loss of revenue.

5.50 INDUCED ECONOMIC IMPACTS OF BANK CONSOLIDATION

Consumer expenditures by employees of the SouthCoast banking industry currently sustain an additional 2,103 jobs in Bristol and Plymouth Counties with a total payroll of \$81.5 million and annual average wage of \$29,066. However, job losses and other cutbacks in the local area's banking sector over the last decade have induced the additional loss of 678 jobs and \$23.4 million in employee compensation in other sectors of the regional economy.

The IMPlan modeling system is able to specify the sectoral distribution of these induced negative impacts by calculating the regional effect of purchases made by former employees based on disposable income levels and the BEA's input-output accounts for Bristol and Plymouth Counties. The model indicates that the induced negative impacts attributable to banking industry consolidation are widely distributed across the region's economy with some employment loss occurring in 207 of IMplan's 538 sector codes. The most significant induced negative impacts occur in sectors providing consumer goods and services, such as residential real estate and construction, retail distribution, automotive services, eating and drinking places, child care, health care, educational services, and state and local government (see Table 2). These losses are attributable to the loss of disposable income by former banking employees, which reduces consumer demand in the local economy across a wide range of business sectors.

Table 2

| Sectoral Distribution of Negative Induced Employment Impacts Attributable to Bank Consolidation, 1993 to 2004 | | |
|---|--|----------------------|
| Implan Code | Implan Description | Induced Unemployment |
| 33 | New residential single family structures | -12.1 |
| 35 | New residential alterations & additions | -10.5 |
| 38 | Commercial and institutional building | -24.5 |
| 41 | Other new construction | -5.7 |
| 390 | Wholesale trade | -22.3 |
| 401 | Motor vehicle and parts dealers | -12.4 |
| 404 | Building materials & garden supply | -6.9 |
| 405 | Food & beverage stores | -17.5 |
| 406 | Health & personal care stores | -7.4 |
| 408 | Clothing & clothing accessories | -10.4 |
| 409 | Sporting goods - hobby - book | -5.7 |
| 410 | General merchandise stores | -17.2 |
| 411 | Miscellaneous store retailers | -9.7 |
| 412 | Nonstore retailers | -8.0 |
| 431 | Real estate | -11.7 |
| 439 | Architectural & engineering services | -8.0 |
| 454 | Employment services | -8.9 |
| 458 | Services to buildings & dwellings | -5.0 |
| 464 | Home health care services | -5.9 |
| 465 | Offices of physicians & dentists | -25.0 |
| 467 | Hospitals | -5.1 |
| 468 | Nursing & residential care facilities | -21.9 |
| 469 | Child day care services | -6.7 |
| 470 | Social assistance, except child day care | -11.4 |
| 478 | Other amusement - gambling - recreation | -6.8 |
| 481 | Food services & drinking places | -53.4 |
| 483 | Automotive repair & maintenance | -10.1 |
| 503 | State & local education | -88.6 |
| 504 | State & local education non-education | -38.0 |

Note: Table only includes sectors with induced negative employment impacts of ≥ -5 .

5.60 TOTAL ECONOMIC IMPACTS

The total annual negative local economic impact of bank consolidation, including direct, indirect, and induced impacts is 1,382 jobs with an annual payroll of \$55.3 million (2004) (see Table 3). This is approximately 1.07% of the SouthCoast's total ES-202 employment (2004) or conversely job losses attributable to the bank consolidations are equivalent to 9.7% of the total *unemployment* in the SouthCoast area (14,300 unemployed).

Table 3

| Total Economic Impacts of Bank Consolidation in the SouthCoast, 1993 to 2004 | | | | |
|---|---------------|-----------------|----------------|---------------|
| | Direct | Indirect | Induced | Total |
| Employment | -538 | -166 | -678 | -1,382 |
| Payroll | -\$26,270,410 | -\$5,613,312 | -\$23,430,850 | -\$55,314,572 |

The IMPlan model for Bristol and Plymouth Counties calculates an employment multiplier of 2.57 for the banking industry, which means that for every 100 jobs lost in the banking industry another 157 jobs are lost at other business establishments elsewhere in the local area as a result of the industry's reduced local purchases and lost employee payrolls.

The IMPlan model for Bristol and Plymouth Counties calculates a payroll multiplier of 2.10 for the banking industry, which means that for every \$100 in lost industry-generated payroll an additional \$110 in wages and salaries is lost at other business establishments elsewhere in the local area as a result of the industry's reduced local purchases and its employees' consumer expenditures.

6.00 CONCLUSION

The Center for Policy Analysis identified Financial Services, and particularly banking, as a “critical and declining industry” in the Greater New Bedford and Bristol Workforce Investments Areas in its 2001 economic base analyses. *Critical clusters* are defined as those that employ 3 percent or more of the total private workforce in a designated geographic area, while the term *declining industry* refers exclusively to declines in employment. (Barrow and Borges 2001)

This designation was based on past employment trends, but included the likelihood that employment would continue to decline as a result of further consolidation and restructuring in the banking sector and the growing use of automated banking services, such as telephone banking, automated teller machines (ATMs), and online banking that reduce demand for labor. Despite the persistency of such factors having an impact on the Southcoast and elsewhere, there are very few provisions for dealing with employment dislocation in the banking sector.

The Community Reinvestment Act was passed in 1977 at a time of comparative stability in the banking sector and it was designed to encourage federally insured banks and thrifts to reinvest in their host communities. The Act’s authors never envisioned the repeal of the Glass-Steagall Act, the new era of bank deregulation, or the possibility of national and international financial holding companies that operate across state and national borders. It’s authors could not foresee the far-reaching impact of automated banking services. Moreover, the Community Reinvestment Act’s main objective was to insure that banks met the *credit* needs of the entire community, including low- and moderate income neighborhoods and small businesses, but it was never designed to address employment dislocations or the community disruption generated by bank consolidation and improvements in banking efficiency.

The three largest bank mergers affecting the Southcoast has resulted in at least 463 job losses, while the banks’ on-going consolidations continue to affect employment in other business sectors. While both Bank of America and Sovereign Bancorp have pledged to promote job growth in Massachusetts, it comes primarily in the form of small business loans and community development investment. Ultimately, the Community Reinvestment Act makes no provisions to require funding for job training or career transition services, despite a substantial number of jobs lost through the consolidation process.

[This page left blank intentionally]

SOURCES CONSULTED

- Adams, Steve. 2004. "Bank Merger Leads to Closings." *The Patriot Ledger*, May 15, p.36.
- Andrade, Stephen, Clyde Barrow, and David Borges. 2001. *Developing Strategies for Recruiting, Retaining, and Training the Workforce of Tomorrow: A Blueprint for Action*. Boston: University of Massachusetts Donahue Institute.
- Bank of America. "Bank of America and FleetBoston Financial to Create Nation's Premier Financial Services Company," in Press Releases Archive. October 27, 2003. <http://www.bankofamerica.com>
- Barrow, Clyde W. and David R. Borges. 2001. *Greater New Bedford Economic Base Analysis: Critical and Emerging Industries and Workforce Development Targets*. North Dartmouth, Massachusetts: Center for Policy Analysis.
- Bartolotta, Joe. 1999. "Fleet Goal: All Systems Are Go – Conversion a Challenge." *Boston Herald*, November 1, p.036.
- Browning, Lynnley. 1999. "\$1.4b Citizens-UST Deal Recasts Financial Scene." *Boston Globe*, June 22, p.A1.
- Brucker, Sharon M., Steven E. Hastings, and William R. Latham III. 1990. "The Variation of Estimated Impacts from Five Regional Input-Output Models." *International Regional Science Review* 13: 119-39.
- Costa-Crowell, Carol Lee. 1995. "Fleet To Buy Out Shawmut; 3,000 Jobs Could Be Lost." *The Standard-Times*, February 21, p.A1.
- Domis, Olaf de Senerpont. 2003. "Banks' Megadeal On a Roll." *The Deal*, October. <http://www.thedeal.com>
- Esposito, Andi. 1997. "Seven Bank Branches Target For Closure." *Worcester Telegram and Gazette*, February 8, p.B6.
- Estrella, John. 1999. "Two Faces of Bank Merger." *The Standard-Times*, March 16, p. A1. <http://www.s-t.com>
- Executive Office of the President, Office of Management & Budget. 1997. *North American Industry Classification System*. Washington, D.C.: Government Printing Office.
- Federal Reserve Bank of Boston. *Profile of New England*. <http://bos.frb.org>

- Fitzgerald, Jay. 2003. "Financials Will Dictate Job Losses Inside Fleet." *Boston Herald*, October 29, p.037.
- Lindsay, Jay. 2006. "Sovereign CEO Assures Shareholders of Say on Future Sale." *The Standard-Times*, September 21, p. A-16.
- McPherson, David. 2004. "Webster Financial Completes FirstFed America Bancorp Deal." *Knight Ridder Tribune Business News*, May 18, p. 1.
- Mason, Edward. 2004. "As Mergers Thin Ranks, New Mass. Banks Arise." *Boston Business Journal*, April 19. <http://www.bizjournals.com>
- Massachusetts Division of Unemployment Assistance. 2004. "Employment and Wages (ES-202)." http://lmi2.detma.org/lmi/lmi_es_a.asp
- Momios, Evan. 2003. "Industry Surveys: Banking." New York: Standard & Poor's. <http://www.netadvantage.standardpoor.com>
- Nicklaus, David. 2004. "Advocates For Poor Use Law as Hammer Over Bank Mergers." *St. Louis Post*, January 11, p.G1.
- Nicodemus, Aaron. 2004. "Tearful Farewell for Compass Workers." *The Standard-Times*, October 16, p.A1. <http://www.s-t.com>
- O'Connor, Patricia. 1995. "NBIS-Fleet Deal Gets Final Approvals." *The Standard-Times*, January 24, p.B7.
- Ortiz, David J. 2004a. "Losses Mount From Bank Mergers." *The Standard-Times*, April 18, p. D1. <http://www.s-t.com>
- Ortiz, David J. 2004b. "Frank to Fight Compass Purchase." *The Standard-Times*, January 28, p.A1. <http://www.s-t.com>
- Ortiz, David J. 2004c. "Sovereign to Cut 350 Bank Jobs." *The Standard-Times*, April 16, p. A1. <http://www.s-t.com>
- Pope, Chris. 1995. "Shawmut, Fleet Banks to Merge//Deal Will Cost 3,000 Jobs." *Worcester Telegram and Gazette*, February 22, p.A1.
- Rieker, Matthias. 2006. "Sovereign CEO: We're 'Positioned' for a Sale." *American Banker Online*, September 15.
- Shook, David. 1997. "Overhaul at Bank May Trim Some Jobs." *The Patriot Ledger*, October 23, p.12.

- Sovereign Bancorp, Inc. 2004. "Sovereign to Acquire Seacoast Financial Services Corporation," in *Press Releases*, January 26. <http://ir.thomasonfn.com>
- Stern, Seth. 2003. "When a City Loses Its Corporate Moorings." *The Christian Science Monitor*, October 29, p. 03.
- Talcott, Sasha. 2005. "Fleet Job Cuts Reach 1,400 in the State." *Knight Ridder Tribune Business News*, March 29, 2005, p. 01.
- Talcott, Sasha. 2004a. "Ex-Fleet Executive Snowden Joins Ranks of High-Profile Departures." *Boston Globe*, May 29, p.D1.
- Talcott, Sasha. 2004b. "Merger to Claim 500 Jobs Bank of America Says Losses Will Hit Mass. Over 2 Years." *Boston Globe*, May 14, p.D1.
- Talcott, Sasha. 2004c. "Hill Holliday Cuts About 20 Jobs in Recent Weeks." *Boston Globe*, June 4, p.D3.
- Talcott, Sasha. 2004d. "Housing Activist Set to Get Funds From Bank." *Boston Globe*, January 10, p.E1.
- The Patriot Ledger Staff. 2004. "Bank Workers Promised Severance Pay." *The Patriot Ledger*, April 19, p.6.
- United States Department of Commerce, Bureau of Economic Analysis. 1981. *Regional Input-Output Modeling System (RIMS II): Estimation, Evaluation, and Application of a Disaggregated Regional Impact Model*. Washington, D.C.: Government Printing Office.
- Webster Financial Corporation. 2004. "Webster Completes FIRSTFED Acquisition; Becomes Largest Independent Bank Based in Southern New England," in *Webster – Investor Relations*, May 17. <http://phx.corporate-ir.net>