

**SOUTHCOAST WORKFORCE
DEVELOPMENT UPDATE:**

BANKING



Prepared for

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

By



**CENTER FOR
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UNIVERSITY OF MASSACHUSETTS DARTMOUTH CENTER FOR POLICY ANALYSIS

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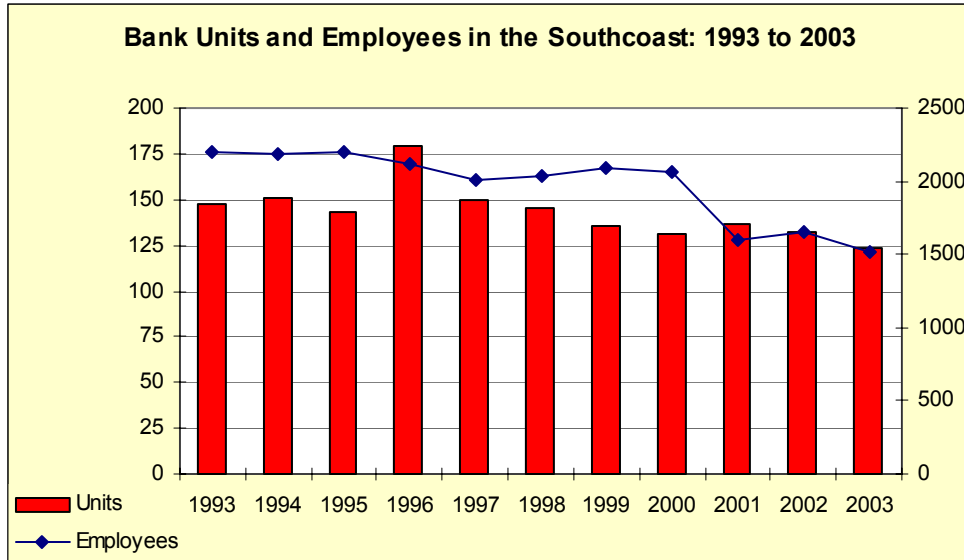
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EXECUTIVE SUMMARY

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

Area Employment in the Banking Industry

- Between 1993 and 2003, total South Coast employment in the banking industry dropped by about 31 percent from 2,206 to 1,523 employees:
- 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). Banking industry employment remained relatively stagnant from 1993 to 1996.
- 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, employment in the banking sector dropped from 2,017 to 1,597 employees.



Prospective Indicators in Area Employment

There are currently three pending mergers and acquisitions that could result in a projected job loss of up to 500 South Coast employees within the next eighteen to twenty-four months. This is more than one-third (34.5%) of the South Coast’s banking industry employment:

- It was announced in January of 2004 that Sovereign Bancorp will acquire Seacoast Financial Services for \$1.1 billion. Sovereign Bancorp will eliminate approximately 350 employees in southeastern Massachusetts with most of the employees located in the South Coast.
- In April 2004, FleetBoston Financial merged with Bank of America (BoFA) in a \$47 billion acquisition. BoFA will eliminate approximately 500 employees in Massachusetts with an undetermined impact on the South Coast.
- In May 2004, Webster Financial Corporation completed its acquisition of Swansea-based FirstFed America for \$465 million. As of May 2004, Webster has already eliminated twenty percent of FirstFed employees with the expectation of more workforce reductions.

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 Bristol Workforce Investment Board to identify critical, emerging, and declining industries in the two Workforce Investment Areas (WIA) and to recommend actions to guide the implementation of workforce development policy in the SouthCoast Area. 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.

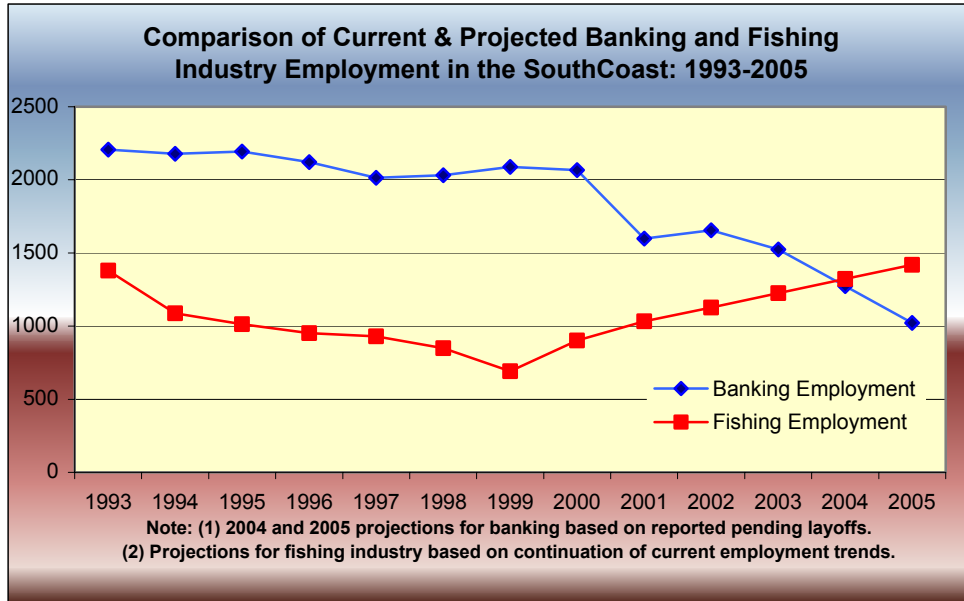
Consolidation has been one of the banking industry's most noteworthy trends since the late 1980s, when concerns about many banks' credit quality led to a wave of mergers and acquisitions (M&A) throughout the United States as strong banks took over weak or failing institutions. Bank mergers and acquisitions accelerated in the 1990s, before slowing more recently until the impact of federal deregulation initiatives stimulated a new wave of mergers and acquisitions. 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 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 indicate that as many as 500 employees, or as much as 33% of the South Coast's remaining banking sector employment, could be eliminated over the next 18 to 24 months. Despite the possibility of intra-company transfers and some expansion by smaller community banks, more than

a decade of bank consolidation is having an impact on the South Coast’s employment that is comparable to the employment declines in the fishing industry over the same period of time. Yet, there are few provisions for dealing with employment dislocation in the banking sector.

Figure 1



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.

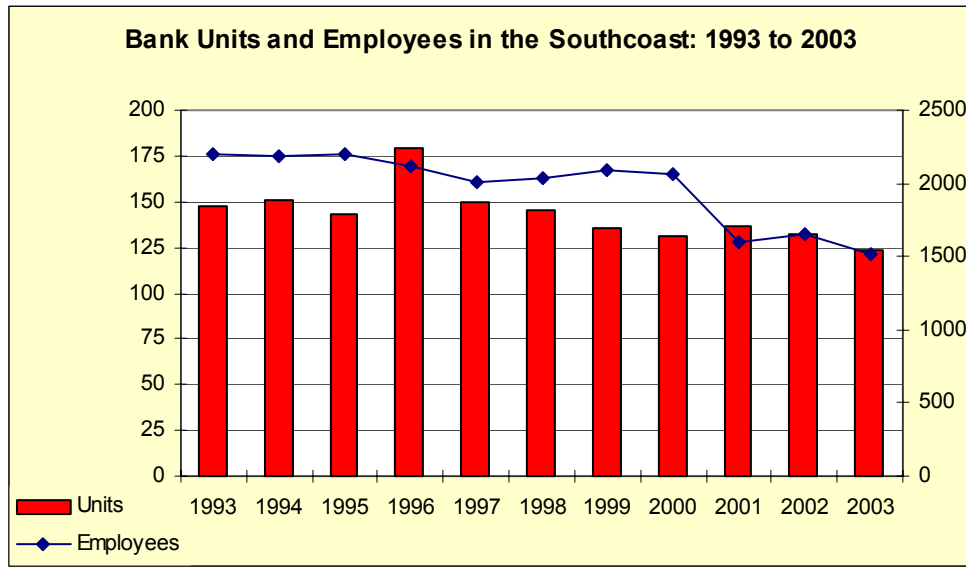
An industry may be both “critical and emerging” (i.e., important and adding employment) or it may be “critical and declining” (i.e., important and shedding employment).

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 2 displays the number of banking units and bank employees in the SouthCoast area from 1993 to 2003 (ES-202). 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. The chart does not include data for Acushnet, Freetown, and Rochester. 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.

Figure 2



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 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 with 9% of the deposits in New England (www.bos.frb.org).¹

¹ BankBoston had about \$160 billion in assets and held about 26% of New England deposits by 2000 (www.bos.frb.org).

For the past two years, after a drop in bank units and employment, the industry has been relatively stable. 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, all of which have been taking place within the past several months.

Between February 2003 and January 2004, twelve Massachusetts banks have been acquired, and since then even larger national corporations have acquired three 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, and FirstFed America Bancorp, Inc., which is based in Swansea. The 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 large acquisitions in process, it is likely that the South Coast's banking industry will once again eliminate significant numbers of employees.

2.00 FLEETBOSTON – BANK OF AMERICA

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% of the businesses operating in its 29 state franchise, and will have the largest share of large corporate relationships, including 95% of the Fortune 500 companies (www.bankofamerica.com).

Following a 30% cost reduction standard with most bank mergers, the Fleet merger is planned to reduce costs by \$1.1 billion by 2005.² 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

² This is \$1.6 billion before taxes or approximately 25% of Fleet's costs if measured alone.

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 Massachusetts³, 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 \$75k, 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.⁴

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).

³ Not including the number of layoffs.

⁴ 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.

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.

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, 150 out of the 750 FirstFed employees had lost their jobs, leaving only fifty 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).

4.00 SEACOAST FINANCIAL – SOVEREIGN BANCORP

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 region⁵ (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 the end of 2004, at least twelve Compass branches, including those in Fall River, New Bedford, Seekonk, and Westport, which overlaps with Sovereign branches, will be

⁵ Approximately 832 employees (Ortiz 2004c).

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. Nearly half of the job cuts will be focused on the Compass Bank headquarters in New Bedford⁶ (Patriot Ledger 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 will be denied a severance package.

Many elected officials, consumer advocates, and banking experts are deeply concerned that the acquisition of Seacoast Financial will devastate 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 its \$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 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.

5.00 CONCLUSION

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. Its 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.

⁶ Sovereign will cut 165 employees and retain 87 at the New Bedford headquarters.

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