

The Impact of Mergers on Philanthropy in the Banking Industry

Total giving is up significantly, but real challenges remain

By Becky Sherblom

When Bank of America completed its merger with MBNA in 2006, it pledged to increase its philanthropic giving, including more than \$200 million in 2006.¹

During its merger with Fleet in 2004, Bank of America promised \$1.5 billion in charitable grants over the next ten years, a 40 percent increase from the year before by both banks.² And in 1998, NationsBank Foundation gave \$1 million to nonprofit groups nationwide during the first week after NationsBank's merger with Bank of America.³

The National Committee for Responsive Philanthropy recently completed a research project to look at the impact on corporate philanthropy of bank mergers within seven bank corporate "constellations."⁴ These banks include Bank of America, JP Morgan Chase, Citicorp, SunTrust, Wachovia, Washington Mutual and Wells Fargo.

Nonprofit groups, especially local grassroots organizations, commonly fear that these bank mergers will spell a decline in or disappearance of grants from these financial institutions. However, analysis of these banks' 990-PFIRS from 1983 to 2005 show a surprising trend: there was significant growth in giving from an annual cumulative total of about \$100 million in the late 1980s to around \$400 million in the 1999 to 2001 time frame.

This can be attributed primarily to the convergence of three factors. First, the role of philanthropy and its prominence as a tool in corporate America changed during the 1990s. It shifted from being an extension of the charitable interests of the corporate leadership, or something done simply to buy goodwill, to being a key component of corporate strategy.

Philanthropy now is part of the equation for a corporation to be a competitive entity in the market. Philanthropy helps attract and retain quality employees, makes the corporation stand out among the competition

so potential customers notice, and influences the quality of the communities in which the business has its investment.

In February 2006, the Committee to Encourage Corporate Philanthropy (CECP) in New York convened a roundtable discussion among 28 leading CEOs and chairpersons where participants concluded that "*the complexion of corporate philanthropy has changed radically in the last decade. Now, more than anytime in the past, corporate giving has become integral to a company's DNA. Companies are working strategically to incorporate their giving into the business model.*"⁵

At the same time that philanthropy was becoming an increasingly important element of corporate strategy, bank mergers in the 1990s were growing and changing as well. Banking corporations changed rapidly as legislative changes facilitated larger and larger mergers covering ever-widening geographic areas. In his 1996 study, "*Bank Mergers & Industrywide Structure, 1980–1994*,"⁶ Stephen Rhoades classified two types of mergers: "horizontal merger," or a merger of companies within the same market, and "market extension," or a merger in which there is no duplication of market. The economic attractiveness of market extension mergers was enhanced significantly by the lifting of strict anti-branching restrictions by states during the late 1980s and early 1990s, which culminated in the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. The act allowed nationwide interstate banking through holding companies by June 1995 and interstate branch banks by September 1997. The holding company model opened new geographic markets to bank corporations, but it was expensive operationally because the corporation held each bank as a separate legal entity. The

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1997 law change allowed interstate branch banks to remove that cost barrier. It also permitted aggregation of those back office functions in a more direct and cost-effective manner, and thereby facilitated a more cost-effective expansion model.

In addition to the changing role of philanthropy and the changing nature of mergers, community and public pressure on merging banks for more philanthropic support also has been a factor in the recent growth in bank giving. The place of community reinvestment pressure in these mergers is not to be ignored. As communities and advocates worried about losing local banks and their local employees, they negotiated agreements with banks using the Community Reinvestment Act (CRA) as a tool. Those agreements often included commitments for community lending and for philanthropic giving.

It also is true that the corporations would modify their behavior in anticipation of a pending acquisition or merger. In their May 2002 Study, *"Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the CRA,"*⁷ Raphael Bostic, et al. found that banks prepare strategically for the regulatory and public scrutiny associated with a merger or acquisition by increasing their lending to low- and moderate-income individuals.

The American Bankers Association confirmed Bostic's findings; in affirming its belief that mergers have positive effects on communities, the ABA acknowledged that because banks are aware that merger transactions focus public attention on their role in the community, they frequently demonstrate their commitment immediately through greater lending and giving.⁸

REGIONAL WINNERS AND LOSERS

As the graph shows, the level of cumulative giving by the seven bank constellations grew significantly during the later-half of the 1990s, and through the first few years of the 21st century. However, one can see that certain regions of the country benefited more than others, with the Southern region of the United States as the winner in the distribution of this largesse. Among these seven bank constellations, the Northeast has received an erratic

amount year to year, but never more than \$100 million. The Southern region jumped above \$100 million in 2002 and has stayed there. The Midwest has experienced steady, small giving, not receiving above \$60 million total in any year.

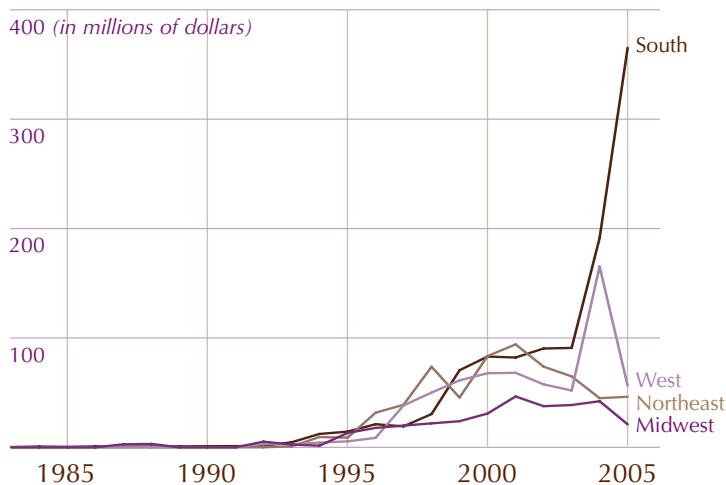
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MEASURING CORPORATE GENEROSITY

As these financial corporations have grown and expanded, their philanthropy also has expanded. Community advocates have worked to increase the level of giving for their communities and, by using CRA expectations, advocates have been successful in increasing the level of lending and giving to communities. Internal advocates within banks who encouraged an expansion of philanthropic giving also have been influential. But as these corporations reach new levels of corporate size and profitability, it is difficult for communities to know what level of giving is the right level.

As Nelson Aldrich Jr., asked in an article in *Worth* magazine, *"What is the true measure of corporate generosity? Is it the total size of a company's gifts to charity or its sacrifice in giving?"*⁹ The measure used,

CUMULATIVE AMOUNTS GIVEN BY ALL BANK CONSTELLATIONS, BY REGION



whether total dollar amount or a percentage of profit, will determine whether or not a corporation is seen as a leader. According to a *Worth* magazine survey, Bank of America ranked number 1 on its list of Top Givers, with \$92 million in giving in 1998, based on their total cash contributions. But that didn't even get Bank of America onto the list of Top 50 Profit Sharers because that \$92 million was such a small portion of Bank of America's overall profits for

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that year (giving as a percentage of average earnings was just 0.92 percent).¹⁰

LOSING PERSONAL CONTACT

In addition to the potential loss of funding from banks after a merger, NCRP's research found that local organizations and communities also fear the loss of key community leaders who had been employed at a bank prior to an acquisition or merger. Nonprofit representatives interviewed identified the removal of access to corporate leaders and decision makers as a significant impact of mergers.

Organizations that had experienced strong partnership relationships with bank employees—as grantees, through volunteer programs and board participation by bank employees or involvement on community issues—often found those relationships weakened or destroyed. Interviewees estimated that communication confusion regarding whom to talk with and what the new priorities are can last anywhere from nine months to two years.

This lack of communication and access can occur even when the bank holds the organization's corporate banking accounts. A social service organization in Chicago that had a long track record of working with Bank One observed, "Once the merger [with JPMorgan] started happening, we lost all contact. We actually do our banking there and we've had lots of discussions with

our private bankers there regarding that. They have attempted all they can, but there has been no response whatsoever."

Moreover, an online application process, now a common requirement among the large banks, means there is little opportunity for dialogue and feedback, precludes the ability to deviate from the perceived norm, and increases the feeling that the application is entering a black hole.

A women's shelter that had experience with long-term relationships with banks observed, "*Smaller community, regional banks—it's easier to build personal relationships and feel that they are committed to the community. With BofA, the whole application process is online: you hit a button, you click*

send, and then you're just sort of waiting." Nonprofit organizations interviewed for the report stated that only rarely is there now a relationship with a corporate representative with whom they can discuss their proposal.

Organizations also expressed consistent frustration that banks increasingly require funding applications to be project-specific rather than for operating support, and often must be a high-visibility project that will garner positive public exposure and corporate visibility. An arts organization, speaking of the post-merger environment in Chicago after multiple bank mergers, said, "*It's been very clear to us that it's got to be a project with visibility factors, and if you can't put it in as a project, you're not going to get a lot of consideration for general operating support.*"

At the same time, there was equal acknowledgement among nonprofit informants that, while bank foundations require that a grant application be for a specific project, the monitoring and budget tracking by bank foundations is nominal, so the funding seems much more like core operating support. There was consensus that overall bank grant reporting is easier than the reporting requirements of other funders, positively comparing bank funding requirements to the high level of detailed benchmarking that private foundations, community foundations or governments tend to require.

CONCLUSION

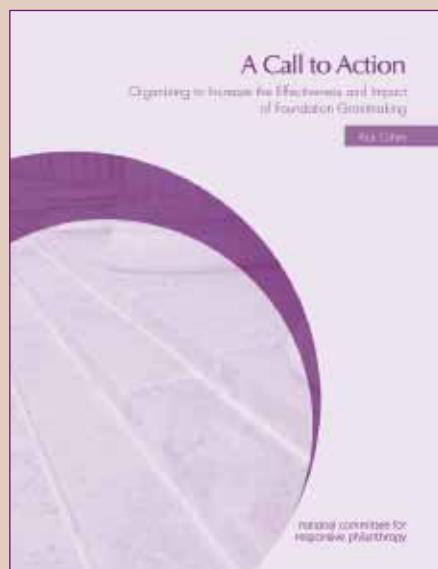
For those who believe banks should be doing more for communities through lending and philanthropy, the messages are clear. Community leaders and activists should work to build a strong culture of giving within smaller banks that are likely merger candidates, to increase the chances of that culture surviving a future takeover. Senior executives in the banking industry should continue to emphasize the positive role that philanthropy can play as part of the overall corporate strategy. Community organizations should continue to negotiate CRA agreements, recognizing that CRA positively impacts bank behavior before, during and after mergers. Bank insiders and outsiders should measure bank philanthropic giving not just in total dollars but also as a percentage of profits, and should acknowledge that banks are not yet leaders in corporate philanthropy when measured in this way. Finally, bank executives should find ways to build stronger connections with local community leaders in a post-merger environment.

Becky Sherblom is a research consultant for NCRP's bank mergers project.

NOTES

1. Bank of America, "Bank of America Completes MBNA Merger," Press Release, 1 Jan. 2006.
2. Rothacker, Rick, "BOFA Pledges \$750 Billion for Aid," *The Charlotte Observer* (North Carolina) 8 Jan. 2004 – Third Edition: 1D.
3. Veverka, Amber, "Bank Marks New Name With Gifts to Charities," *The Charlotte Observer* (North Carolina) 3 October 1998 – Third Edition: 1D.
4. A "constellation" is used to describe a current bank and the prior banks that were integrated through the mergers. NCRP will release the research report by the end of June 2007.
5. *Summary Report, Board of Boards CEO Conference, Committee to Encourage Corporate Philanthropy*, www.CorporatePhilanthropy.org, March 2007.
6. Rhoades, Stephen, *Bank Mergers & Industrywide Structure, 1980-1994*, Board of Governors Federal Reserve System, 1996.
7. Bostic, Raphael, et al., *Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the Community Reinvestment Act*, May 21, 2002, 3.
8. American Bankers Association, "Banking Institution Mergers: Questions and Answers," February 2003, http://www.aba.com/Industry+Issues/ECO_Mergers_QA.htm.
9. Aldrich, Nelson Jr., "America's Most Generous Companies," *Worth* magazine, Dec. 1999/Jan. 2000, 144.
10. Ibid.

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