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Fed Must Make Wells Fargo a Good Citizen of LA

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Fed Must Make Wells Fargo a Good Corporate Citizen of L.A.

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Why the big rush for the Federal Reserve and the Department of Justice to approve the merger of Wells Fargo and First Interstate banks? They should take their time in order to ensure that the merger--if approved--won't further victimize employees, depositors and residents of underserved communities.

The combined bank plans to lay off 7,000 to 9,000 employees, mostly in the greater Los Angeles area, which will retard the region's gathering economic recovery. Wells will pay $11.5 billion for First Interstate, whose top executives are guaranteed lucrative severance packages. The laid-off tellers, computer programmers, secretaries and janitors, who made First Interstate an attractive takeover target in the first place, will not be similarly rewarded.

About 350 First Interstate branches, again mostly in the Los Angeles region, will also be shuttered. These closings will be especially harmful in inner-city and poor neighborhoods, where the existing shortage of bank branches has created opportunity for scam artists and check-cashing stores that charge exorbitant fees. WellsFargo has promised to open mini-branches in supermarkets. That won't much help low-income neighborhoods, however, because chain supermarkets are even scarcer than banks.

In general, Wells Fargo's track record is hardly that of a good corporate citizen. Besides closing branches and laying off tellers in its quest to streamline operations, it has been reducing its single-family loan program. Recent studies, furthermore, show that Wells is more likely to reject mortgage applications from blacks and Latinos than from whites with comparable incomes.

Banks are publicly chartered institutions. Taxpayers insure their deposits and their mortgage loans. Thus, the approval of the Federal Reserve Board and the Department of Justice is required before the Wells Fargo-First Interstate merger can be completed. Under the Community Reinvestment Act, the Fed can veto the marriage if it finds that either Wells Fargo or First Interstate have poor records of meeting the credit needs of low-income neighborhoods and minority consumers.

Here's what the Fed should do:

* It should undertake an economic report on the merger. The public should not have to rely on the banks' own self-serving analyses, which could seriously underestimate the damage. Under chairman Alan Greenspan, the Fed has deliberately kept the national unemployment rate at around 6% or above. Its action on the proposed bank merger should not simply be an extension of that policy.

* It should require the merged bank to open new full-service branches in currently underserved neighborhoods across California. Several years ago, after a Federal Reserve Bank of Boston study revealed widespread redlining, local government and community organizations urged Boston's major banks to open new branches in the neglected neighborhoods. At first, the banks resisted, contending they were in business to make money, not give it away. But after several months of negotiations, they agreed to open seven full-service branches. They soon discovered that these outlets added customers, markets--and profits.

* It should require Wells Fargo to plug the loopholes in its "community investment" agreement. To woo community support for its hostile takeover of First Interstate, Wells Fargo pledged to invest $45 billion over the next 10 years in California's underserved neighborhoods. But Wells has provided few specifics. For example, will the bank use flexible underwriting standards for approving loans to households with multiple jobs but steady incomes? Will it set up a micro-loan program to help entrepreneurs establish desperately needed small businesses in low-income neighborhoods? How will it reach out to underserved neighborhoods so they can learn about loan programs? What kind of counseling will the bank provide first-time home buyers and small-business entrepreneurs? Will Wells' commitment extend to forming a capital pool to assist community organizations to

develop innovative businesses, such as employee-owned cooperatives?

* It should mandate that top Wells officials attend quarterly public meetings with grass-roots community and consumer groups to monitor the bank's commitment and ensure its implementation. The bank's agreement won't work unless Wells has partners with strong ties to community residents and with records of getting things done. These includes community-development corporations, social-service agencies and neighborhood organizations. One key group is the West Coast network of the Industrial Areas Foundation, which has built affordable housing and worked closely with private- and public-sector groups to upgrade low-income neighborhoods from Los Angeles to Seattle.

City governments and civic organizations can also play an important role in holding Wells Fargo accountable. Los Angeles has a "linked-deposit" law on the books, which requires the city treasurer to deposit city funds only in banks that meet community credit needs. Unfortunately, the law has never been enforced. Mayor Richard Riordan and the City Council should pressure the city treasurer to conduct regular evaluations of banks' performance and carry out the linked-deposit policy. Similarly, churches, unions, community groups and consumer organizations could hold Wells accountable by withdrawing their deposits if it doesn't comply with a strong agreement.

Citizens groups typically look to government for redress. But times change. Government in the Newt Gingrich/Pete Wilson era has less power; private corporations are growing larger and more powerful. Ordinary citizens must fight to directly hold big business accountable, as well as through regulations like the Community Reinvestment Act. Community organizations are doing just that by bringing Wells Fargo to the negotiating table to demand that a new mega-bank meet the needs of consumers, neighborhoods and small businesses. But they need the Fed and the Department of Justice to be a champion for consumers, not a rubber stamp for a powerful bank.

Credit:Peter Dreier, professor of politics and director of the public-policy program at Occidental College, was a member of the advisory board of the Resolution Trust Corp. E. Lynn Brown is presiding bishop of the Ninth Episcopal District of the Christian Methodist Episcopal Church

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