

AN OVERVIEW OF THE POST MERGER FINANCIAL POSITION OF FLEET FINANCIAL GROUP AND BANKBOSTON CORPORATION

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ABSTRACT

This paper examines the post-merger financial position of Fleet Financial Group and BankBoston Corporation. This is accomplished using established techniques of financial analysis, some qualitative and some quantitative. The paper largely ignores the interesting issue of reasons which may or may not serve as the basis for merger. Rather, the paper focuses its attention on the fact that, whatever the reasoning behind the merger, the longer term effect is a clearly evident slowdown in probable future growth rates.

INTRODUCTION

In mid March 1999 Fleet Financial Group Incorporated agreed to acquire BankBoston Corporation in a stock swap (pooling of interests accounting method) thus creating the eighth largest commercial banking entity in the United States, when measured by total assets (see Table I).

Table I
The Largest U.S. Commercial Banks as Measured by Total Assets on December 31, 1998

Citigroup Inc.	\$669,000,000,000
Bank America Corporation	\$618,000,000,000
Chase Manhattan Corporation	\$366,000,000,000
Banc One Corporation	\$261,000,000,000
J.P. Morgan & Company	\$261,000,000,000
First Union Corporation	\$237,000,000,000
Wells Fargo & Company	\$202,000,000,000
Fleet Boston Corporation	\$178,000,000,000
Bankers Trust NY Corporation	\$133,000,000,000

Source: Bank Financial Statements

Table I discloses that, even after the merger, the combined entity to be known in the future as Fleet Boston Corporation is still only one half the size of Chase Manhattan Corporation and less than one third the size of both Citigroup Incorporated and BankAmerica Corporation. The scale economies implications of this are clear and require no further comments except:

Comment 1: The three largest banking entities have a world presence and compete internationally whereas Fleet Boston Corporation can be validly viewed as a primarily regional (New England) banking entity.¹

Comment 2: The three largest banking entities themselves are disadvantaged, from a competitive standpoint, given that they are actually engaged in absorbing and consolidating recent material acquisitions of their own.

Table 1 does not indicate the full impact of this second comment. All of the banks cited, including Fleet Boston Corporation, have grown materially since the beginning of the 1990's. Hopefully, Table 2 will clarify this point.

Table 2
Recent Growth in the Largest U.S. Commercial Banks as Measured by Total Assets
(December 31, 1998 versus December 31, 1989)

	Total Assets (billions\$)		Percent Change
	12/31/89	12/31/98	
Citigroup Inc.	\$231	\$669	+289.6%
Bank America Corporation	\$ 99	\$618	+624.2%
Chase Manhattan Corporation	\$107	\$366	+342.1%
Bank One Corporation	\$ 27	\$261	+966.7%
J.P. Morgan & Company	\$ 89	\$261	+293.3%
First Union and Company	\$ 32	\$237	+740.6%
Wells Fargo and Company	\$ 49	\$202	+412.2%
Fleet Boston Corporation	\$ 33	\$178	+539.4%
Bankers Trust NY Corporation	\$ 56	\$133	+237.5%
MEAN PERCENT CHANGE			+494.0%

Source: Bank Financial Statements

Table 2 discloses an average (mean) percentage growth in total assets of 494.0 percent. Fleet Boston Corporation's percentage of 539.4 percent does not vary materially from the group norm and lies well within the range of values (237.5 percent to 966.7 percent) of this sample population. Much, and in most cases the overwhelming majority, of this growth reflects ongoing systemwide merger and acquisition (M & A) activity. Historically, the period following a period of aggressive corporate restructuring has been marked by a slowdown in growth reflecting consolidation of newly acquired asset bases.² Such a repeat of past history can certainly not be dismissed "out of hand" given the present situation.

It is against this background and largely because of it that the authors have undertaken this current project. Actually, however, our interest in the commercial banking sector is certainly not new. A 1983 paper by C.M. Becker and the late K.A.N. Luther titled "The Recently Evolving International Exposure of Major Texas Banks" was published in the Journal of the Southwestern Society of Economists. This was followed in 1985 in the same journal by the paper "Selected Texas Banks: Some Risks of Foreign Exposure" authored by C.M. Becker, K.A.N. Luther and J. Tollett. The regional/international focus of these early works then shifted to the related issue of "earnings quality". A 1989 publication "Appraising the Earnings of Selected New York City Banks co-authored by C.M. Becker and C.R. Waits appeared in Public Administration Economics and Finance, a NAEFA sponsored publication. A short form of "The Manufacturers Hanover/Chemical Bank Merger: A Contrarian's Perspective" by C.M. Becker and Allyn Needham was published in 1992 in the Southwestern Journal of Economic Abstracts. The complete version appeared in 1993, by permission, in Integración Financiera y TLC: Retos y Perspectivas. Shortly thereafter, a paper by the same authors "The Bank of America/Security Pacific Merger: A Contrarians Perspective" appeared. This was followed in turn by a 1997 work by C.M. Becker, E.M. McNertney and Allyn Needham titled "The Chase Manhattan Corporation/Chemical Banking Merger: A Skeptical Overview" which appeared in the July 1998 issue of the Southwestern Journal of Economics. In March of 1999 two new bank merger related papers coauthored by C.M. Becker and E.M. McNertney were presented. The paper "The Chase Manhattan Corporation Competitive Outlook Post Mergers and Associated Corporate Restructuring in the New Era of World Banking" appeared on the program of SWFAD while the paper "The Post Merger Financial Position of NationsBank Corporation/BankAmerica Corporation" appeared on the program of the Southwestern Economics Association. The present paper constitutes yet the latest contribution to this research stream.

The remainder of the paper is divided into three sections. The first deals with the actual merger between Fleet Financial Group Incorporated and the BankBoston Corporation. The second delves in some depth into the financial position of the merged entity while the third presents the conclusions of our study. We now proceed to

the above-described merger.

THE FLEET FINANCIAL GROUP/BANK BOSTON CORPORATION MERGER

As outlined in The Wall Street Journal Fleet Financial Group Incorporated proposed to tender 1.1844 of its common shares for every 1 common share of BankBoston Corporation.³ Given the market prices in effect on the announcement date the total projected cost to Fleet would be approximately \$15,614,596,325. Table III presents a more detailed picture of the proposed transaction:

Table 3
The Estimated Cost to the Acquiring Entity
of the Bank Boston Corporation/Fleet Financial Group Incorporated Merger

Common Stock Issued	\$15,614,596,325
Merger Related Expenses	N.A.
Total Cost	\$15,614,596,325
Book Value of Bank Boston Corporation on 12/31/98	\$ 4,817,000,000
Total Cost minus Book Value of Acquired Assets	\$10,797,596,325

Source: Bank financial Statements and Common Stock Price Data on Announcement Date.

Table 3 concludes that Fleet Financial Group Incorporated is projected to pay 3.24 times the net assets acquired, a full but, based on historical precedent, not an extravagant sum for the acquired assets given that the combined entity to be known as Fleet Boston Corporation would sport a projected 32 percent market share in New England.⁴ Such a market share would clearly imply market dominance over the entire region given the fragmented market shares of other regional rivals.

It must be recognized, however, that this case may well prove to be a little too simplistic. Given that Bank Boston Corporation has been engaged in M & A activity of its own in recent years, most of which is accounted for using the purchase method of acquisitions accounting, one would be justified in arguing the presence of a significant goodwill component on its balance sheet.⁵ Given this probability it was decided to add Table 4:

Table 4
The Impact of Goodwill on Bank Boston Corporation's Stated Book Value

Book Value of Bank Boston Corporation on 12/31/98	\$4,817,000,000
Goodwill	\$ <u>787,000,000</u>
Book Value minus Goodwill	\$4,030,000,000

Source: Bank Financial Statements

When the adjusted book value of Table 4 is employed instead of the stated book value of Bank Boston presented in Table III it becomes clear that the acquisition of Bank Boston Corporation by Fleet Financial Group Incorporated is not at all likely to prove an inexpensive proposition. At 3.87 times the net assets acquired (with merger related expenses ignored as indicated in Table III) Fleet appears to be paying inflated current market prices for acquired assets.⁶ The analysis shall now focus in on what the Fleet Boston Corporation will consist of financially speaking. This shall be done by constructing a projected balance sheet of this entity and then analyzing it in conjunction with the other major accounting statements.

FINANCIAL POSITION OF FLEET BOSTON CORPORATION

Fleet Boston Corporation is heir to a proud history. This history dates back to before the Constitutional Convention (Bank Boston Corporation is the old First National Bank of Boston that traces its roots to its founding in 1784). In some businesses history does not matter particularly but in banking where image reigns exalted it can and often does. This point together with the other intangibles associated with scale and regional dominance must be considered as positive background factors in any analysis of this as yet to be established institution.

Table 5
The Projected Balance Sheet of Fleet Boston Corporation

	Bank Boston	Fleet	Combined
Cash	7.2%	5.4%	6.2%
Securities	22.2%	10.3%	15.2%
Loans	58.2%	66.5%	63.1%
Total Assets	100.0%	100.0%	100.0%
Deposits	66.0%	66.8%	66.4%
Owner Equity ⁷	6.6%	8.4%	7.6%
Total Liabilities + Equity	100.0%	100.0%	100.0%

Source: Bank Financial Statements

Table 5 is presented as a "common-size" or "100% statement". Through this device the reader is better able to visualize the relative proportions of the various financial elements involved rather than being impeded by the sheer magnitude of the dollar amounts entailed. The table is constructed on the basis that the projected merger had occurred on December 31, 1998 (the last day of both bank's fiscal year). Use of this date carries an added advantage in that all numbers reported in percentage terms were derived from audited data rather than from unaudited, though arguably more recent, quarterly results. The underlying assumption behind the table is that, as announced by both merger parties, the combination had taken place as a "pooling of interests" which would involve a simple combining of each banks assets and liabilities at their pre-merger stated values without any consideration of their current fair market values and without the assignment of goodwill as would have been the case had the combination been treated under the purchase method of accounting.

From an analytical viewpoint Table 5 raises some interesting issues. Primary among these is the question of how likely is it that post-merger consolidation will be smooth given the very different views of risk taking demonstrated by the senior management teams of the institutions involved. The Loan/Deposit (L/D) ratios give a strong hint of this. While both banks display considerable aggressiveness, if one examines the issue on historical precedent, Fleet Financial Group's L/D ratio of 99.6 percent is not only materially higher than BankBoston Corporation's L/D ratio of 88.3 percent but implies that virtually every dollar deposited within the holding company has been loaned out.⁸ One might be excused for saying that Fleet has been so aggressive in its view of the financial world that it has loaned out everything but the CEO's personal office desk. One can observe further evidence of hyper-aggressive senior management in Fleets rapid (considering the time normally required for consolidation) and unrelenting pattern of acquisition which appears from the public statements of the two CEO's to have been motivated in no small part by fear of being taken over by a larger corporate player rather than the more traditional list of reasons having to do with the orderly expansion of one's particular business franchise. Be that as it may, the pattern, so hinted at, is indicative of probable future corporate infighting and, if things go in the usual way, the probable departure in fairly short order of Bank Boston Corporation's senior management team.⁹ While personality fit (an unknowable) could mitigate this particular scenario it would seem that probabilities favor the above described outcome. Whatever the actual outcome may be the risk perception difference just noted does not bode well for a future pattern of immediate strong and sustainable growth.

Having said that, it must also be stated that the projected merger partners, by using the pooling of interests method of accounting, with the projected merger being scheduled for late 1999, have virtually guaranteed themselves a strong earnings gain for the upcoming fiscal year since under a "pooling" not only are the asset and

liability categories combined without adjustment but so are the earnings. This, assuming Fleet Financial Group's earnings per share (\$2.52 reported fully diluted for 1998) and Bank Boston Corporation's earning per share (\$2.94 for 1998) remain constant in 1999 Fleet Boston Corporation would get to claim the full earnings \$5.46 assuming no merger related dilution) of both banking entities for the entire fiscal year as though the merger had been finalized on January 1, 1999. The discreet divestiture of selected asset categories or parts thereof during the following fiscal year at profits dictated by acquired asset market values exceeding book costs regardless of merger price paid for these assets virtually guarantees a highly satisfactory financial result for the fiscal year 2000. By then more mergers can be engineered as necessary to produce projected earnings targets.

This of course raises a second issue for the serious analyst. That is the question of whether projected results are to be measured by "real" factors (eg. market share/economies of scale gains) or be "money" factors (eg. reported earnings per share of common stock). Clearly, as described in the introductory section, a case can be made that Fleet Boston Corporation stands to reap significant benefits if the "real" factors are considered and there is a long term case here but as to the so called "money" factors these constitute little more than short term illusion used to mask what may prove to be a lengthy consolidation.¹⁰

A third and final issue raised by this rather crude balance sheet concerns the question of whether or not too much leverage is present. Superficially the answer is clear. Assuming that asset quality is sound the 7.6 percent owner's equity component is both historically in line with industry practice and also comes (depending on the figure used - Table 5 or footnote 7) up to or only slightly below the 8 percent equity percentage advocated by the Bank for International Settlements (B.I.S.).¹¹ Thus, preliminary examination gives evidence of financial soundness of the projected merged entity.

The Financial Soundness Issue: Mr. William Siedman, the principal author of the 1980's savings and loan bailout and a person long acquainted with the consequences of unsound banking practice, when asked during a CNBC interview in the spring of 1999 to describe the primary danger to financial soundness in banking responded that in his opinion the answer lay in the quality of the asset accounts and especially so in the case of the loan account. The authors, who have been actively conducting research in this area for over a quarter of a century concur with Mr. Siedman's assessment.

Given this stance we shall next proceed to examine the projected "pooled" loan account of Fleet Boston Corporation. To this end Table VI is now presented.

Table 6
The Projected Loan Account of Fleet Boston Corporation

Total Loans	\$112,202,000,000
Minus: Loan Loss Reserves	\$ <u>2,306,000,000</u>
Net Loans	\$109,896,000,000

Source: Bank Financial Statements

Like its earlier counterparts, Table 6 is based on audited 1998 fiscal year end financial data. It highlights one thing in particular, the ratio of loan loss reserves to total loans. This ratio computes to be 2.055 percent. Historically, this would place the ratio in the conservative category.¹² However, in recent years financial analysts have grown wary of hard and fast percentages especially since the period of the 1970's and 1980's when some banks increased their reserves well above established conservative benchmarks and still required bailout or rescue packages.¹³

To provide a more detailed and complete breakdown of the projected "pooled" loan account, we introduce Table 7.

Table 7
The Projected Loan Account of Fleet Boston Corporation
- A Detailed Breakdown

Total Loans	100.0%
Commercial and Industrial	47.6%
Consumer	14.5%
Commercial Real Estate	8.4%
Residential Real Estate	12.2%
International	12.2%
Other	5.1%

Source: Bank Financial Statements

For reasons previously indicated (in connection with Table 5) Table 8 is presented as a "Common size" or "100% statement". If one were to assign risk knowing nothing beyond the above breakdown one would be encouraged by:

1. the diversification of overall lending exposure.
2. the presence of a large residential real estate component.

In the latter case, assuming any sort of normal economic conditions, it is nearly unthinkable that borrowers would walk away from their homes, especially if the homes in question constitute primary residence.¹⁴ Another encouraging factor is that the dominant lending category is "commercial and industrial" lending. In periods of tight money and associated high interest rates lenders have occasionally found themselves facing so called "usury ceilings" with their costs of funds rising while their interest income is constrained. This has historically been a particular problem for consumer loans, given that consumers constitute a large voting bloc, and for small business commercial loans. However, the political problem, when it last appeared in the late 1970's and early 1980's, was not severe in the case of large business commercial loans. Thus, since Fleet Boston Corporation is historically known for being primarily a lender to larger businesses this problem, were it to ever occur, appears not to be of major concern.

The primary risk elements as seen by the authors lie in the remaining specifically enumerated loan categories. These are:

1. Consumer Loans
2. Commercial Real Estate Loans
3. International Loans

The good news is that these categories, when combined, constitute only 35.1 percent of total loans. Nevertheless each carries more than normal risk even assuming that management has exercised due diligence in its administration and oversight activities.

Regarding consumer loans, there exists a well documented history of declining domestic savings rates which in recent months for the first time since the Great Depression of the 1930's have registered negative overall readings.¹⁵ This could be argued to present unusual risk down the road to consumer lenders generally including even large and well represented banks. In the case of commercial real estate, it is well known that there exists what the highly respected CEO of General Electric Company J.F. Welch stated to be "significant and persistent overcapacity" throughout the commercial real estate sector. That such "overcapacity", if present, could threaten rates of return in a future recession can not be doubted.¹⁶ This being the case, it is but a short logical step to there developing non-performing asset problems for banks exposed to this particular sector. As to international loans, serious economic problems exist in Southeast Asia, Japan, Korea, Russia, and much of Latin America. These problems are well known and have been addressed in financial publications too numerous to make documentation worthwhile. What is interesting here is that BankBoston Corporation derived 20% of its 1998 total revenues from just two countries (Argentina and Brazil). These two nations, each the others most important trading partner, have remained at the center of the Latin America firestorm. Should conditions further deteriorate in this

region of the world Fleet Boston Corporation would most assuredly be exposed to an unusually high risk. To be a little more specific on the Argentina/Brazil issue Table 8 is included:

Table 6
Argentina/Brazil Exposure on December 31, 1998

Loan Portfolio in Argentina (A)	\$6,000,000,000
Loan Portfolio in Brazil (B)	<u>\$3,000,000,000</u>
Total Loan Portfolio (A & B)	\$9,000,000,000
A + B Loans/Total Loans	8.0%

Source: Bank Financial Statements

Table 8 is relatively clear and self-explanatory. It is based on management estimates contained in Bank Boston Corporation's 1998 annual report rather than on audited figures. It is also informative in that it shows the size of the bet the projected merger partners are making on the Argentina/Brazil region. Obviously, in a worst case scenario the risks are unsustainable in that failure of the economies of this region or, more unlikely still, expropriation of foreign assets by the governments involved, could produce a condition of insolvency for not only Bank Boston Corporation but also for its projected holding company Fleet Boston Corporation.¹⁷ However, while such a dire outcome can not reasonably be anticipated at this time it is worth noting that anytime a business has 110.8% of its net worth exposed in one place it is assuming a significant risk.¹⁸

As a footnote to the discussion of the projected loan account of Fleet Boston Corporation it might be noted that total nonperforming assets of this about to be established entity totaled some \$1,138,000,000 when impaired loans are included in the calculation. As a percent of loan loss reserves plus owner equity of the combined enterprise the existing ratio of 7.18 percent can certainly not be regarded as a problem and lies well within the parameters of normal business results. The problem here, however, as it is with all banks, is that junior level employees routinely "cover-up" suspected bad loan situations lest their careers be negatively impacted. Thus, the above ratio should be regarded as a minimum indicator of the size of this ongoing problem.

The Asset/Liability Maturity Matching Issue: An important consideration relating to the whole area of financial soundness concerns the issue of maturity matching between assets and liabilities. Table 9 is included to throw some light on this area of potential concern

Table 9, while an obvious patchwork affair, would seem to contribute a fairly conservative and realistic statement of long term asset exposure since it assumes that all loans carried in every other category by the projected Fleet Boston Corporation are short term in character. This assumption is probably too extreme with the result that some understatement of long term asset exposure is built into the analysis. Now, as to the significance of Table 9, it is clear that no lender of other people's money can remain in business indefinitely by borrowing short term and lending long term. The net long term asset exposure of \$11,581,000,000 constitutes 81.4 percent of the projected equity of Fleet Boston Corporation. Thus, what we are dealing with here is a fairly significant bet on the continuance of an upsweeping yield curve with its inherent favorable spreads between long and short term interest rates. Should market forces prove adverse in the future and should the yield curve become flat or, in a worst case scenario, "inverted" Fleet Boston Corporation would find itself exposed to fairly significant losses and might in consequence have to reevaluate its lending policies in a manner consistent with credit contraction.¹⁹ Given Fleet's projected size and relative market share within the New England region there could well be regional, if not national negative multiplier effects to be considered. Given that this potential threat is well understood by government regulators it would seem doubtful that Fleet Boston Corporation would be allowed to pursue expansion in anything other than a very cautious and conservative manner from this point in time forward, the balance sheet being what it is at the close of the 1998 fiscal year.

Table 9
Net Long Term Asset Exposure of Fleet Boston Corporation
 (Projected using December 31, 1998 Data, figures expressed in millions of dollars)

Long Term Assets (LTA)	
Securities Maturing in 10 years or longer ²⁰	\$13,353
Residential Mortgage Loans ²¹	\$14,894
Real Estate Loans ²²	\$ 8,166
Bank Premises and Equipment	\$ <u>2,548</u>
Total LTA	\$38,961
Long Term Liabilities & Equity (LTL & E)	
Long Term Deposits ²³	\$ 1,808
Long Term Debt	\$11,346
Equity ²⁴	\$14,226
Total LTL & E	\$27,380
Net Long Term Assets (LTA-[LTL & E])	\$11,581

Source: Bank Financial Statements

The Off-Balance Sheet Issue: That the banking business entails risk is a given. However, nowhere is this risk so overlooked as in the area of off-balance sheet lending-related exposure. Table 10 is presented for the purpose of clarifying its extent in the case of Fleet Boston Corporation:

Table 10 reveals an off-balance sheet credit exposure totaling \$274,062,000,000 as of December 31, 1998. That this exposure rivals in size that of the much larger total assets (\$365,875,000,000) of Chase Manhattan Corporation gives stark testimony to the importance placed by the projected Fleet Boston Corporation on the generation of fee income. Fee income is a great and wonderful thing assuming that the fees can be earned without performing any services (such as extending credit in actual dollars) in return. The question arises, however, as to what might happen during a period of either exceptionally rapid business cycle expansion or conversely during a period of sudden business cycle collapse. In either case credit lines might be drawn down with the result being either an unsustainably high loan to deposit ratio for Fleet Boston Corporation or the incurrence of massive financial penalties for unilateral and arbitrary cancellation of credit commitments on the part of the lender.²⁵ Given these facts it seems inconceivable to the authors that regulatory officials will not be forced to rein in the future growth aspirations of this projected New England financial titan.

All of this ignores completely the presence of risk factors associated with derivatives, trading, activities, and of course lawsuits. These may become important in the future but for now all that can be done is to mention them, recognizing their potential in the factor mix since they are inherently unpredictable and on the whole not subject to meaningful quantitative analysis.

Table 10
Off Balance Sheet Lending-Related Exposure of Fleet Boston Corporation
 (Projected from December 31, 1998 Financial Data)

Credit Card Lines	\$ 53,546,000,000
Commitments to Extend Credit	\$177,558,000,000
Standby Letters of Credit and Guarantees	\$ 10,565,000,000
Commercial Letter of Credit	\$ 1,673,000,000
Assets Sold with Recourse	\$ 9,122,000,000
Other Unclassified Commitments	\$ 21,598,000,000
Total Off-Balance Sheet Exposure	\$274,062,000,000

Source: Bank Financial Statements

SUMMARY AND CONCLUSIONS

Like the papers in the series that have immediately preceded the present one the authors have uncovered a serious potential for financial meltdown with all of its attendant risks. It is recognized that risks and potential reward are inherently related as the late Frank H. Knight so eloquently stated in his well known work Risk Uncertainty and Profit. It is a matter of serious concern, however, when during a period in which numerous well qualified experts are proclaiming a "new era" that otherwise competent corporate management would assume high risk levels.

Simply stated, it is our finding that Fleet Boston Corporation despite a proud history and distinct advantages associated with economies of scale suffer from overly aggressive management. In fact, logical analysis casts doubt as to whether this management can be expected to "pull together" in the same direction given what appears to be differing priorities (the management of Bank Boston Corporation has stressed Latin American growth potential while that at Fleet Financial Group Incorporated has stressed building market share in New England) and different perceived levels of risk tolerance (referring to the discussion associated with Table V). Huge potential problems could require extremely effective teamwork and managerial insight of the highest order (referring to the discussion associated with Tables 8 and 10) not to mention other potentially less pressing but still significant potential areas of difficulty (referring to the discussion associated with Tables 7 and 9).

Whether these risks, just alluded to, develop into crisis proportions or not it is clear that Fleet Boston Corporation, burdened as it is with the assimilation of previous expansion and fully leveraged, can not be expected to pursue successfully aggressive growth strategies anytime in the near future. Given that it is present management's temperament to assume a high risk posture the outlook for their, as yet to be completed, merger can only be described as "guarded".

END NOTES

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1. J.P. Morgan and Company can also validly be viewed as a primarily international banking entity. Regarding domestic comparative patterns, none of the banks cited in Table I has a significant presence in Fleet Boston Corporation's home territory of New England.
 2. The reader only needs to consider the periods following the great merger waves of the early 1890's, the early 1900's, and the late 1920's as well as the mini-waves of 1960-61 and 1967-1969 to gauge the overall implications of this point.
 3. See The Wall Street Journal for March 15, 1999.
 4. This market share assumes that BankBoston Corporation's 15 percent market share can be successfully maintained (as opposed to diluted by ordered regulatory divestments) and added to Fleet Financial Group's existing 17 percent market share.
 5. Recent acquisitions include the investment banking operations of Robertson Stephens, Deutsche Bank Argentina S.A., Pacific National Corporation, Bay Banks Incorporated, and The Boston Bancorp.

6. To Fleet's credit they are not projected to pay the 4.73x tangible book value that the authors calculated Nations Bank Corporation was forced to pay within the last calendar year for BankAmerica Corporation. Nor by our calculations are they likely to suffer the "apparent" dilution suffered by the Chase Manhattan Corporation in its March 31, 1996 merger with Chemical or the latter's "apparent" dilution suffered in connection with its December 31, 1991 merger with Manufacturers Hanover. In fact Fleet management has talked to The Wall Street Journal of the projected merger being accretive and generating \$600,000,000 in cost savings.

7. Preferred stock is not included as a component of owners equity in the interest of conservatism. Had inclusion taken place Fleet would have its equity percentage boosted slightly to 9.0 percent and the combined entity would have shown an equity percentage of 8.0 percent.

8. Ever since the 1929 market crash a L/D ratio above 70 percent has been viewed as extremely aggressive (a L/D ratio of 80 percent system wide was, for all practical purposes, as high as it got prior to the crash and the next time ratios approached these levels the 1970's stock market disasters quickly followed).

9. Ever since the 1929 market crash a L/D ratio above 70 percent has been viewed as extremely aggressive (a L/D ratio of 80 percent system wide was, for all practical purposes, as high as it got prior to the crash and the next time ratios approached these levels the 1970's stock market disasters quickly followed).

10. The analytical problem is that the "money" factors are more-susceptible to the process of measurement than the "real" ones and this can lead to an over reliance by the analyst on their perceived implications even if these implications are known to be seriously flawed. The reader should bear this caveat in mind throughout this piece or others based on accounting data and its dissemination.

11. Historically, from the time of the Great Depression of the 1930's through and including most of the 1960's the equity/total assets ratio for all United States commercial banks ranged around the benchmark figure of 8 percent. This changed within the advent of bank holding companies in the late 1960's and the new benchmark figure rapidly became 5 percent reflecting the "new era" of more aggressive banking. It should also be added that this "new era" also ushered in a period of increased numbers of bank failures and forced mergers somewhat reminiscent of the 1930's. Thus, if one were to attempt to describe the pattern of bank failures from the 1930's to the new millennium it would take the shape of the letter "U".

12. The old rule applied during the period from World War II up until the middle 1970's established the following norms:

	Loan Loss Reserves/Total Loans
Conservative	2 percent or above
Normal Range	1 to 2 percent
Low	below 1 percent

13. See the case of Citizens and Southern Bank of Atlanta, Georgia or the case of Continental Illinois Bank or, for that matter, the case of First Pennsylvania Bank. This ignores the complete disasters like Franklin New York Corporation or the United States National Bank domiciled in California.

14. Of course, it must be admitted that during periods of extreme conditions (e.g. the Great Depression of the 1930's) it is a matter of record that people have defaulted on mortgages payments and have left the lender in possession of unsaleable property. This has been accomplished in part by a "doubling up" process where multiple generations of one family live under the same roof.

15. Optimists will argue that since stock market capital gains are not tabulated as part of personal savings and since the United States securities markets are trading at or near record peaks, as this piece is being written, there is little cause for concern. However, a famous and timeless remark popularly attributed to J. Pierpont Morgan the elder may be appropriate here. Mr. Morgan is said to have stated "markets always will fluctuate".

16. The last official "recession" recorded by the National Bureau of Economic Research (NBER) occurred in 1991 or approximately eight years ago. The only comparable expansion in modern times (the NBER's reference and specific cycle investigations cover the period since 1854) was that which emerged between cycle troughs of 1961 and 1970. Given these facts and the fact that the expansion of the 1960's was artificially supported by a massive defense buildup (lacking today) it is hard to imagine that the current expansion phase can go on indefinitely as some "new era" economists suggest while assuring the public that the business cycle is a thing of the past.

17. One should at least be mindful that both the House of Fugger and the House of Medici were forced into financial oblivion centuries ago as a result of foreign loan/asset concentration.

18. An asset concentration like the one described can certainly be argued to reflect negatively on the wisdom and overall quality of BankBoston Corporation's senior level management. In a business that carries the fiduciary responsibility of banking there is no excuse for placing a bet of this magnitude on any one region. This taken in conjunction with BankBoston Corporation's well documented historical loss of market share in New England speaks volumes on the issue of management quality for this projected subsidiary of Fleet Boston Corporation.

19. A similar analysis done by the authors on Chase Manhattan Corporation using 1997 fiscal year data produced a figure of 180.2% net long term assets to equity. From similar but as yet unpublished work the authors have undertaken it appears that this problem is not isolated but rather system wide.

20. This figure is based on market value. The author would have preferred to use a calculation based on amortized cost but complete figures calculated on that basis were unavailable. From what incomplete data there was, however, it appears that there would have been no material difference in the figure had amortized cost been utilized.

21. \$2,294,000,000 of home equity loans are included in this category.

22. Construction loans, while real estate related, are considered short term and are thus excluded from this calculation.

23. This figure was derived by combining Fleet Financial Group Incorporated's time deposits due in over 12 months figure of \$715,000,000 with a estimated figure derived by multiplying BankBoston Corporation's \$10,310,000,000 in time deposits times 10.6 percent (the percentage of Fleet's time deposits represented by time deposits due in over 12 months). Whatever the accuracy of this proxy the reader can be assured that 12 month or beyond deposit maturities do not come close to matching the maturities of the asset categories listed. Thus, any net long term asset exposure is probably understated.

24. Equity here includes preferred stock..