

Big Profits; Big Donations

Charlotte's banks gave record contributions to charity in 2004, but critics say they could give more

Rick Rothacker, *The Charlotte Observer*
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Andrew Plepler, president of Bank of America Corp.'s charitable foundation, spent a lot of time last year networking in the Northeast.

As the Charlotte bank merged with FleetBoston Financial Corp., he was making contacts with community leaders and doling out charitable grants in the bank's new territory. "We were entering a market where Fleet had a terrific reputation," Plepler said.

His travels showed up in the foundation's 2004 contributions, as Bank of America gave away a record \$102 million to charity, nearly one-fourth of that in the Northeast.

Just down Tryon Street, Frank Addison, corporate philanthropy director at the smaller Wachovia Corp., also was hitting a new high, handing out \$46.1 million from Connecticut to Texas.

As Charlotte's big banks got bigger, both dug deeper for charity in 2004, an Observer analysis of foundation Internal Revenue Service returns found. Those donations, however, struggled to keep pace with record profits.

Philanthropy experts say it's common for corporate giving to lag earnings. The banks say their contributions will increase again this year. They also point to new programs designed to increase the effectiveness of their giving to neighborhoods and education.

Critics say the banking giants should be donating more. During recent merger reviews, watchdog groups called on Bank of America and Wachovia to contribute 2 percent of pretax profits. In 2004, both gave less than 1 percent, a common benchmark.

"We have to make decisions in the interest of the communities, the shareholders and the company," Plepler said. "The community organizations, I suspect, will always hope corporations and private foundations will give more."

The banks are the biggest corporate givers based in Charlotte, and their reach continued to expand as they bought competitors around the nation. Their contributions help fund the United Way, arts projects, hospitals, social services organizations and hurricane relief, to name a few.

In 2004, Bank of America's foundation donated 6.1 percent more than 2003, when adding in Fleet's \$19.6 million in giving that year. Over the same period, pretax profits rose 12.5 percent to \$22.5 billion, when using pro forma combined earnings for both years.

Meanwhile, Wachovia foundation contributions climbed about 11 percent last year, while pretax profits increased 24.5 percent to \$7.6 billion.

Companies give to charity because it's the right thing to do, and to help communities where they do business, experts said. They also can win favor with employees and customers and claim tax deductions.

As they give, corporations must balance the demands of shareholders, which receive a piece of profits through dividends. Last year, a Bank of America stockholder proposed the company stop giving to charity, but shareholders nixed the plan.

"If they give too much, shareholders come to the annual meeting and ask questions," said Curt Weeden, president of the Association of Corporate Contributions Professionals, based in Mt. Pleasant, S.C. "You should be able to answer that you're leveraging the company in a way that helps the business as much as society."

For banks, cash only please

Bank of America and Wachovia's giving followed a pattern in corporate America.

Overall, corporate giving of cash and goods increased 7.3 percent in 2004 to an estimated \$12 billion, according to a study by the nonprofit Giving USA Foundation. Over the same period, corporate pretax profits were up 12.6 percent, the study said.

Comparing charitable giving among companies is difficult, especially in different industries, experts say. For example, pharmaceutical companies and software companies often give away large amounts of their products. Banks mostly give away cash.

Some companies count sponsorships and other expenses as charitable giving, or split contributions between foundations and general corporate giving.

Charlotte's banks largely give money through their foundations, which then give to other nonprofits and match employee contributions. The foundation heads work with local market executives and their boards.

Bank of America counted an additional \$6 million in non-foundation giving to certain national organizations in 2004, which pushed its total to \$108 million. Wachovia added an extra \$8.2 million in sponsorships and other non-foundation giving, for a total of \$54.3 million.

Using the larger charitable numbers, Bank of America gave away about 0.51 percent of its \$21.2 billion in pretax profits counted under merger accounting rules. Wachovia donated 0.71

percent.

In a survey of 71 large companies in 2004, the Committee to Encourage Corporate Philanthropy found corporations donated a median of 1.3 percent of pretax profits, up from 1.1 percent in 2003.

For banks, the irony is they're making so much money that it's tough for their giving to keep up.

"Banks tend to be lower than the benchmark because they are so profitable," said Charles Moore, the committee's executive director.

Plepler said contributions and earnings aren't always in synch because his foundation budget - like at many companies - is based on previous year's profits.

"We have been fortunate in having some successful earnings years, so therefore our percentage by that benchmark may not reach that 1 percent," said Plepler, a former prosecutor who joined the bank two years ago from mortgage giant Fannie Mae.

Wachovia also bases its giving on the previous year's profits, Addison said.

When 2004 contributions are compared with 2003 profits, the giving ratio at both banks was a little higher - 0.68 percent at Bank of America and 0.89 percent at Wachovia. Both had profit increases in 2003 that were bigger than their rise in 2004 foundation giving.

"Our aspiration is always one percent of pretax profits," said Addison, who worked on merger integrations before taking the philanthropy job a year and a half ago. "It's an aspiration that depends on how the company is doing. We had great earnings last year. It's a challenge."

When profits outpace gifts

Critics say the banks could do better.

During the Federal Reserve Board's review of the Fleet merger, the California Reinvestment Coalition rapped Bank of America for giving less in 2002 than in 2001 while profits increased. The community advocate also urged the bank to give 2 percent of profits.

"Bank of America has not established clear benchmarks for charitable contributions," the group wrote in public comments.

During last year's acquisition of Alabama-based SouthTrust Corp., the Greenlining Institute of Berkeley, Calif., also pushed Wachovia to contribute 2 percent, with a stronger emphasis on community development.

"They should be at 1 percent with a goal of 2 percent," policy director Robert Gnaizda said.

Plepler said there's nothing wrong with the groups' aspirations, but contends Bank of America

has a "vigorous commitment" to its philanthropy "not just in terms of dollars spent but in the way we approach the community."

Wachovia's Addison points out that it's only a small number of groups pushing for 2 percent. He also said the bank is always looking for more qualified projects that help low- and middle-income neighborhoods.

Like Bank of America, he notes Wachovia will give away more money in 2005, donating more than \$1 million a week for the first time. "We want to continue to grow," he said. "We are starting to hit our stride."

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More Money in '05

Bank of America this year plans to donate \$130 million, part of a pledge to give \$1.5 billion to charity over 10 years. The bank says it will donate \$200 million in 2006, after buying credit card firm MBNA Corp.

Wachovia expects to donate in the high \$50-million range this year as it expands with its SouthTrust Corp. acquisition.

Bank earnings will go up this year, too. Analysts expect Bank of America to make about \$26 billion and Wachovia \$10.1 billion in pretax profits.

About the Numbers

Nonprofit organizations such as the bank's charitable foundations file information returns with the Internal Revenue Service, and are required to make them public.

Wachovia provided the Observer with its 2004 tax return after filing its return in May. Bank of America is still preparing its 2004 return after an extension, but provided the Observer with some details. It's expected to file next month.

Tax returns from 1998 to 2003 were obtained from guidestar.org, a nonprofit that tracks other nonprofits.

Like individuals, businesses receive tax benefits from their charitable contributions. The Internal Revenue Service allows corporations to claim deductions for contributions up to 10 percent of taxable income. **Biggest Corporate Givers**

According to the Chronicle of Philanthropy's annual survey of corporate giving, pharmaceutical giant Pfizer Inc. was the top overall donor in 2004 at \$1.2 billion, helped by its contributions of

discounted medicine to the poor and uninsured.

The largest cash-giver was retailer Wal-Mart Stores Inc. at \$197.7 million. The survey looked at foundation and other corporate giving by 94 companies.

Besides Charlotte's big banks, Duke Energy Corp. was the only other area company to make the list. The company gave away \$17.8 million, according to the survey.

How Mergers Influence Giving

As banks grow through acquisitions, community advocates worry about the affect on contributions in their communities.

Although California received the most Bank of America contributions in 2004, donations to the state have been sliding since Charlotte's NationsBank bought San Francisco's BankAmerica in 1998, said Rhea Serna, policy advocate for the nonprofit California Reinvestment Coalition.

In a 1999 document outlining the bank's California "Community Development Strategy," Bank of America said it would give \$18 million to the state that year, up from \$14 million. In 2004, the bank's foundation gave California a total of \$15.3 million.

Andrew Plepler, president of Bank of America's charitable foundation, said California is an "enormously important" state to the company, noting the foundation has two staff members based there. He said giving could have gone down in previous years, but says it increased "pretty substantially" since he arrived in 2003.

In a more recent merger, Bank of America pledged to give at the same level as FleetBoston Financial Corp., which it acquired last year. In seven Northeastern states last year, Bank of America gave \$23.2 million, compared with \$19.6 million in total giving by Fleet's foundation in 2003.

The nonprofit **National Committee for Responsive Philanthropy** last year launched a study of post-merger giving by banks, including Bank of America and Wachovia.

"Research in general shows that following some major mergers philanthropy increases right when the merger is being publicized, but after that no one is really sure what happens," said Omolara Fatiregun, senior research associate with the committee, who expects to complete the study late next year.

The Bank Town Series

This year, Observer banking reporters Rick Rothacker and Binyamin Appelbaum are examining the Charlotte banking industry's influence on communities and the economy.

For past stories, see www.charlotte.com/mld/charlotte/news/.

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