

WHY THE FEDS ARE INVESTIGATING DAN DORFMAN

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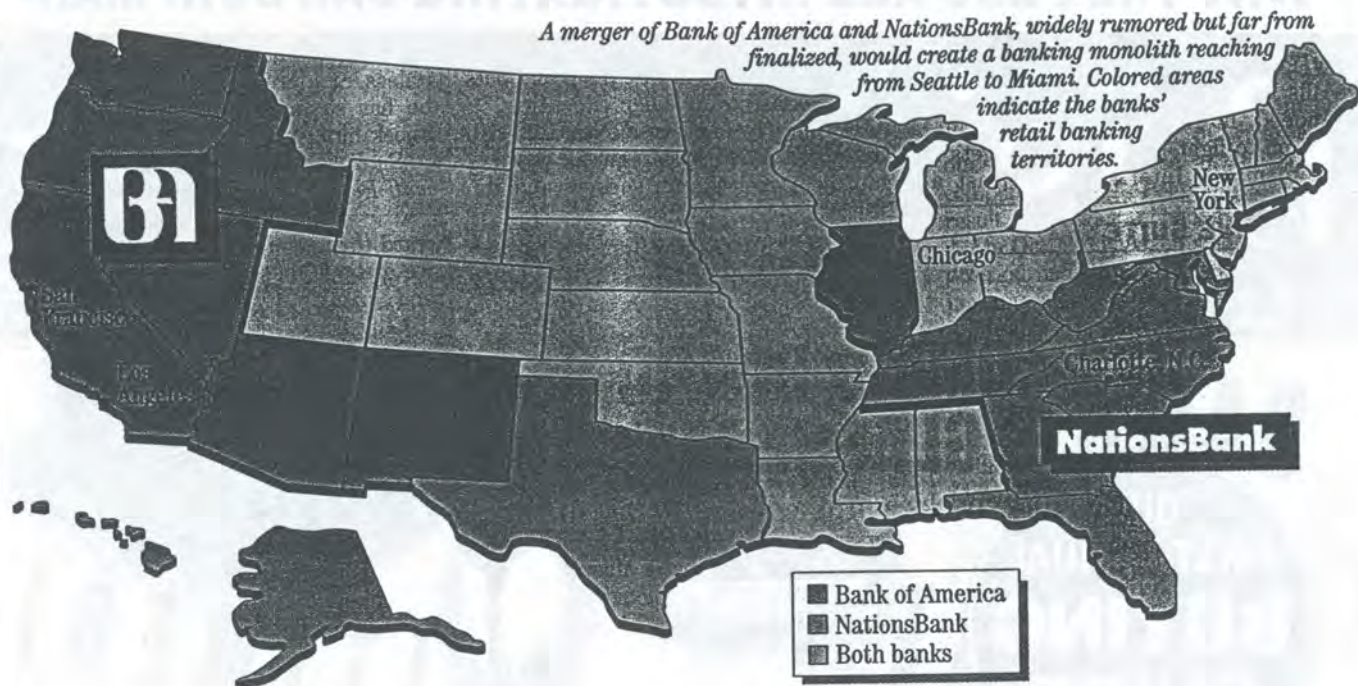
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DEALS

## BANKAMERICA AND NATIONSBANK: NO WHITE SMOKE YET

Still, compelling reasons to merge may prove irresistible

In a merger-mad banking world, there's no hotter prospect than an alliance of BankAmerica Corp. and NationsBank Corp. With \$412 billion in assets, the combined bank would be America's largest, dramatically eclipsing the soon-to-be-joined Chase Manhattan Corp.-Chemical Banking Corp.'s \$297 billion. Under the lustrous Bank of America name, it would reach 18% of U.S. homes in a golden crescent stretching from the Pacific Northwest through Texas east to Washington, D.C.

But it isn't going to happen just now. Sources close to both banks say news reports in *Barrons* and the *Los Angeles Times* citing highly charged merger negotiations were premature. Outsiders say talks between the two banks were fairly serious last spring. But they were unable to agree on where the merged institution would be headquartered or who would run it. "There are certainly embers there, and there probably was a flame," says one investment banker. But negotiations broke off, another source says, when NationsBank CEO Hugh L. McColl Jr. worried that his bank was being acquired instead of merging.

Much has changed since, however—

enough, perhaps, to eventually push BofA and NationsBank to the altar. Wells Fargo & Co.'s hostile offer for First Interstate Bancorp would create a tough new competitor on BofA's home turf. More important, the Chase-Chemical supermerger sets a bigness precedent for NationsBank's McColl and BofA's Rosenberg, both veteran acquirers who have relied on sheer size to build market power in both retail and corporate banking. In fact, a source close to BofA says Rosenberg was arguing as recently as two weeks ago that a NationsBank merger would create marketing prowess, technological efficiencies, and strengthened distribution.

**"IN PLAY."** It's no accident that merger wires are buzzing in California. Although still bleak, the Golden State's bank market may at last be primed to shine again. The state's bankers have whittled problem loans to 2.76% of assets, from the crisis mark of 7.45% in early 1992. Return on assets has more than quintupled, to a .97% annual rate. The numbers still trail the national average, but the turnaround is clear. "California is in play," says Lloyd Greif of Los Angeles-based investment firm Greif & Co.

It's typical McColl territory—big potential at workout prices. Edward G. Harshfield, CEO of Los Angeles-based thrift California Federal Bank, says McColl hunted similar quarry in the Texas market in 1988. "He's a little more sanguine about risk than others," he says.

Run the numbers, and there are reasons a BofA-NationsBank deal makes sense. Analysts say the transaction would be a virtual merger of equals—matching BofA's \$230 billion in assets with NationsBank's \$182 billion. Keefe, Bruyette & Woods Inc. analyst David Berry figures the two banks could cut costs by \$800 million, 6% of combined expenses, by eliminating redundancies in corporate finance, cash management, credit-card operations, and mortgage processing. The combination could unify marketing in some of the nation's richest retail markets, creating the first national banking brand and enabling it to compete more effectively for corporate underwriting and international business.

A deal could also fit both McColl's and Rosenberg's private agendas. Rosenberg, 65, who has said he will retire on Jan. 1, could go out with a bang. McColl, 60, could run the nation's largest bank until his retirement and still make it possible for Rosenberg's successor, 48-year-old David A. Coulter, ultimately to take the reins. The numbers, the strategy, and the management plan all make plenty of sense. More than likely, these two will be talking again.

By David Greising in Atlanta, with Kelley Holland in New York and Nanette Byrnes in Los Angeles