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Inside BB&T-SunTrust's community reinvestment plan

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When the House Financial Services Committee discusses the proposed BB&T-SunTrust merger at a hearing Wednesday, lawmakers will likely be keenly interested in the deal's impact on rural and low-income communities.

To that end, the two banks and the National Community Reinvestment Coalition announced a $60 billion "community benefits plan" on July 16. The pledge, which is similar to pacts other banks have signed in advance of mergers, represents how much the new bank — to be named Truist Financial — will reinvest over three years through mortgages, small-business loans and other commitments.

On the surface, $60 billion is a big number. Digging deeper into how the bank will deliver on its pledge reveals more details and raises some questions. For one thing, roughly 95% of the pledged amount is based on the combined total of BB&T and SunTrust's community reinvestments for the past three years, making the number appear inflated.

The $60 billion pledge is the largest so far related to the Community Reinvestment Act. But it's only $3 billion more than BB&T and SunTrust's previous CRA allocations.
Bloomberg News

“Is this $60 billion a real number? That’s the question,” said Peter Skillern, executive director of Reinvestment Partners, an advocacy group in Durham, N.C.
Here are four takeaways from analyzing the community benefits plan beyond the top-line number:

The pledge is based mostly on prior BB&T, SunTrust commitments

From all appearances, the $60 billion pledge is a real number — and represents the largest pledge so far related to the Community Reinvestment Act. But it represents only $3 billion more than BB&T and SunTrust's previous CRA allocations.

BB&T spokesman David White called the plan "one of the broadest and widest-reaching programs in our industry."

The $60 billion figure was calculated based on each bank’s average investments that are eligible for CRA credit made over the past three years with an additional 5% increase added on top, said Jesse Van Tol, the chief executive of the National Community Reinvestment Coalition. The 5% increase amounts to more than $1 billion a year in CRA-eligible lending above what each bank would have invested as standalone entities.

“We use and celebrate the $60 billion number because it is a way for people to understand that this is a big deal, this is significant,” Van Tol said. “But the quality is the more significant thing. Our whole process is aimed at meaningful commitments.”

Neither bank would release a copy of the community benefits plan. NCRC issued a two-and-a-half-page press release summarizing the agreement. The 14-page plan contains more details, Van Tol said.

New mortgages make up over half of the pledge amount

According to the press release, the banks are pledging a combined investment over three years of:

· $31 billion in home purchase mortgage loans for low- and moderate-income borrowers, LMI "geographies," minority borrowers and/or majority-minority geographies.
· $7.8 billion in small-business lending (to businesses with less than $1 million in revenue).
· $17.2 billion in community development lending.
· $3.6 billion in CRA-qualified investments and philanthropy, including $120 million designated for “philanthropic giving.”

In some areas, the banks are increasing their commitments substantially above current levels. For example, BB&T and SunTrust have pledged a 10% increase in community development lending above current levels. The “philanthropic giving” represents a more than 100% increase above current levels.

The banks have made commitments on affordable housing and have promised to address climate change and race equity, Skillern said. The banks also are committed to having loan officers focused on the LMI market and to originate some nonconforming loan products.

The plan demonstrates that "one plus one equals more than two," Skillern said.

No rural branch closures

In almost every merger, banks look to cut costs and close branches, which tends to drive down lending, some studies show.

Banks, community groups and regulators are all keenly aware that the move to online banking from brick-and-mortar branches could have a disparate impact on LMI communities.

"In LMI communities, the bank is an anchor for small business lending and financial counseling, and often can have a more significant impact," said Thomas Curry, a partner at Nutter McClennen & Fish and former comptroller of the currency. "The pressure to close branches and drive people to digital access is an issue that is just going to grow."

It is unclear how many branches will be closed in the BB&T-SunTrust merger. But in exchange for NCRC supporting the merger, the plan includes a promise by the proposed institution not to close any branches in rural areas.

BB&T and SunTrst also have agreed to open at least 15 new branches in minority communities to offset any other branch closures and layoffs. BB&T and SunTrust executives also have agreed that the percentage of branches in LMI communities will go up by 1 percentage point, Van Tol said.

BB&T and SunTrust have touted the opportunity to cut costs and invest heavily in technology as part of the rationale for the deal. In the last two years, BB&T has closed 170 branches.

“When two banks merge, the overall level of lending frequently goes down,” said Van Tol. “It’s not uncommon for the new unified bank to do less lending than the two banks separately were doing. We feel very strongly that this agreement ensures in general that the level of investing and investment for [low- and moderate-income communities] goes up.”

A continued rural focus for the bank came up during six listening sessions with 200 nonprofit groups held by BB&T CEO Kelly King and SunTrust CEO Bill Rogers. (Both CEOs are scheduled to testify at Wednesday's House hearing.)

"A repeated theme is that this bank encompasses a big part of rural America," said Skillern. "BB&T has the greatest number of bank branches in rural North Carolina, so they made a commitment not to close any branches in rural areas — which is huge given the national trend."

Is the plan more about public relations than community reinvestment?

Most community benefit plans are private, nonbinding contracts that are not enforced by regulators. While that makes them popular, they also can be viewed as an expensive form of public relations meant to reduce community group's scrutiny of a merger.

Such plans "eliminate formal objections or potential objections based on the applicants' combined lending records," Curry said.

Ken Thomas, a CRA expert who is president of Community Development Fund Advisors in Miami, said the size of CRA pledges in the past decade by banks seeking to merge has grown significantly.

"Is it binding? No," Thomas said. "So what if they don't hit the $60 billion in three years, or five years, are they going to change the deal? No."