



Adam Drimer
Assistant Vice President
Federal Reserve Bank of Richmond
PO Box 27622
Richmond, VA 23261

Federal Deposit Insurance Corporation
Atlanta Regional Office
10 Tenth Street NW, Suite 800
Atlanta, GA 30309

Dear Mr. Drimer:

Carolina Small Business Development Fund (CSBDF) respectfully submits the below letter of support for the proposed merger between BB&T Corporation and SunTrust Banks, Inc. These comments serve as a supplement to my testimony on April 25, 2019, given at the public meeting in the Charlotte Branch of the Federal Reserve Bank of Richmond. CSBDF is a certified community development finance institution (CDFI) has worked to promote community economic development in North Carolina for almost 3 decades. Since 2010, our efforts have focused on promoting entrepreneurship across the region, primarily through the deployment of affordable small business loans. It is through that framework that we offer unequivocal support for the proposed merger.

Our experience suggests the combined merger entity would be more effective and have greater capacity to promote economic growth across the region. Traditional banking institutions have long been recognized as vital partners in the promotion of sustainable community development. Through community banking efforts and corporate philanthropy, BB&T has displayed a long history of support for initiatives that grow small businesses and revitalize distressed neighborhoods. Unfortunately, despite the importance of this work, the past few decades have seen a decline in financial support for CDFIs and similar organizations.ⁱ However, a handful of institutions – including both BB&T and SunTrust – have remained steadfast in their commitments to this area.

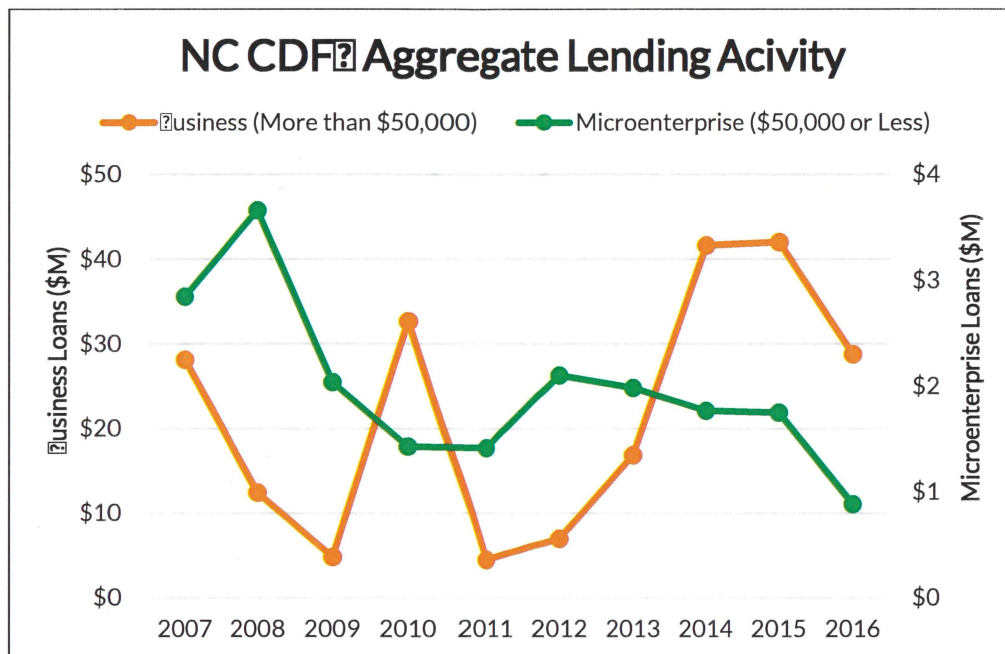
Over the years, CSBDF has worked with BB&T on a variety of initiatives. They have shown consistent financial support in promoting a spirit of entrepreneurship and spreading awareness about the importance of small business. For example, they have partnered with us to support the Innovation and Entrepreneurship Center in Raleigh. Through technical training and public events, the Center works to promote development in the most economically distressed areas of the Raleigh metro area. BB&T has also been a key sponsor for major events that Carolina Small Business holds to inspire and train small business owners. These types of investments are emblematic of their strong support for community development.

As you know, financial institutions have an affirmative obligation to support community development through the Community Reinvestment Act. The extent to which banks have met this obligation is something that federal regulators are required to consider when assessing proposed mergers.ⁱⁱ Research shows that some financial institutions will strategically increase credit access and the promotion of community development during the year before merger activity. Such actions are designed to appease the closer regulatory scrutiny that



comes with this type of activity.ⁱⁱⁱ Based on our experience, I believe BB&T's commitment to sustainable development is a long-standing core component of their business strategy. For example, analyses on differences in bank corporate cultures has highlighted how BB&T has a strong institutional commitment to improving the economic mobility of its clients.^{iv}

More than perhaps ever before, there is a strong need for traditional financial institutions to support the work of community finance organizations. Small business lending is usually not an area that is profitable for larger banks. In the decade since the Great Recession, the number small business loans for less than \$100,000 by regulated banks has declined by 52%.^v Carolina Small Business, and organizations like us, work to fill that market need by providing affordable financing. Support for those loans comes from institutions like BB&T and SunTrust. However, CDFI lending to North Carolina businesses for amounts of more than \$50,000 has essentially remained flat since the Great Recession.^{vi} In addition, loans for smaller microenterprises (\$50,000 or less) have actually declined by more than half during the same time period.




This decline in lending cannot be adequately explained by lack of market demand. Data from the Census Bureau consistently show almost 1 in 5 employer firms use business loans of some type to grow or expand.^{vii} The demand is there for affordable financing. In our experience, the inability of community organizations to meet this consistent need is mostly a function of funding constraints. Put simply, community organizations need additional support to fully assist all the small business owners that come to us for help.

When banks merge, there is often a variety of legitimate concerns raised by stakeholders about how the combined entity could alter the competitive landscape for affected industries.^{viii} From our perspective as a nonprofit organization that seeks to target underserved entrepreneurs, the merger would likely enable more robust support networks for current and aspiring small business owners. This is consistent with data showing that, when done correctly, bank mergers can help improve economic outcomes.^{ix} In general, economies of scale should allow for the SunTrust/BB&T entity to funnel more needed resources to organizations that work to increase capital access. I have no doubt that the combined entity would be able to leverage resources in ways that would magnify the positive impacts each institution is already separately making. I would, however, urge increased response to the capital and equity needs of CDFIs managed by people of color. This merger should also have a strong narrative of support for small businesses.

For all these reasons, I strongly urge approval of the merger between these two North Carolina financial institutions. Thank you for giving me the opportunity to comment about this important issue. I hope my remarks have been able to highlight why this is an important concern for community finance organizations.

Be Steadfast!

Sincerely,


Leewood V. Long
President and CEO

ⁱ Berner, M., Brown-Graham, A., McCall, J., Morgan, J., Mulligan, T., Floyd, N., Hatton, C., & Mahood, A. (2019). Building Bonds and Bridges (And Leveraging Links): A Place-Based Mobility Strategy Based on Social Capital Creation. Presented at the 2019 Biannual Federal Reserve Research Conference, Washington, DC.

ⁱⁱ Moore, J. (1997). Community Reinvestment Act and Its Impact on Bank Mergers. *North Carolina Banking Institute*, 1(1), 412-435.

ⁱⁱⁱ Bostic, R., Paulson, A., Mehran, H., & Saidenberg, M. (2005). Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the Community Reinvestment Act. *Journal of Economic Analysis & Policy*, 5(1), 1-27.

^{iv} Snyder, S.A., & Griffin, J.J. (2012). Branch Banking and Trust: Community Banking Based on Core Values: Can it Survive? In H. Spitzack, M. Pirson, & C. Dierksmeier (Eds.), *Banking with Integrity: The Winners of the Financial Crises* (pp. 64-74). New York, NY: Palgrave McMillian.

^v Community Reinvestment Act data, which tracks capital deployment by large financial institutions, shows a decline of 318,708 in 2007 to 153,656 in 2016 in total numbers of loans to small businesses for less than \$100,000.

^{vi} Data are sourced from the Community Development Finance Institution Fund aggregate transaction level reporting public data for fiscal years 2007 through 2016.

^{vii} Census Bureau, Annual Survey of Entrepreneurs, 2016. Total of North Carolina respondent firms indicating they used the following capital sources to grow or expand: (1) business loan from a bank (17.7%), (2) government-guaranteed business loan from a bank (1.5%), and (3) business loan from a federal, state, or local government (0.4%).

^{viii} Berger, A., Demirguc-Kunt, A., Levine, R., & Haubrich, J. (2003). Bank Concentration and Competition: An Evolution in the Making. *Journal of Money, Credit, and Banking*, 36(3): 433-451.

^{ix} Collender, R., & Shaffer, S. (2003). Local Bank Officer Ownership, Deposit Control, Market Structure, and Economic Growth. *Journal of Banking & Finance*, 1, 27-57.