

From: jay cunningham [REDACTED]
Sent: Thursday, February 21, 2019 12:02 AM
To: [REDACTED]
Cc: [REDACTED] Transparency
Subject: Excess Deposit share - BB&T / SunTrust proposed merger

I am writing to site that the proposed merger between BB&T and SunTrust is, in my opinion, and gross continuation of the market share grab that US regulators have long been lax in enforcing. The proposed merger will only act to further concentrate an already near-monopolistic banking industry in the US. The proposed merger will bring excess deposit share to BB&T / SunTrust, exacerbating the market controlling share exercised by Bank of America, JPMorgan, and Wells Fargo. Indeed, I argue that the adjusted share of Bank of America, JPMorgan, and Wells Fargo has already effectively exceeded most state deposit share caps, and that allowing the BB&T / SunTrust merger to proceed will only further excess market power in the United States, and prove to be detrimental to consumers. I trust that the ICBA and its members are working diligently to dissuade regulators from approving the merger. Further, I encourage community banks, as well as the ICBA and ABA, to seriously consider regulatory pressure to revamp the deposit share regulations. Industry consolidation in the US broadly has gone too far, and banking is no exception.

Sincerely,

Jay Cunningham

Concerns Regarding Proposed BB&T / SunTrust Merger

I work for a long-only asset management firm (AUM of \$24b) as the research analyst covering Financial Institutions. My primary coverage for the past almost 20 years has been US banks. As a long-term investor, with an average holding period of 7 years, we seek to invest in firms with sustainable competitive advantages. However, differentiation across US banks, in our opinion, continues to be difficult (though a select few are truly unique). Over 20 years of (largely) bank investing I have found one constant – the very large banks continue to cede share to the small(er), more service oriented banks. I applaud the community banks of the US, their support of local economies, and the work you do to support them. But you and the banks you support seemingly have an uphill battle, with regulators pushing greater consolidation.

The recent merger announcement between BB&T and SunTrust has been touted as a blockbuster deal. Wall Street has said that the deal is exactly what the industry needs, and the management teams have extolled the virtues of the new company (which will be the 6th largest bank in the US). But lost in the discussion are the substantial gains in deposit market share that the combined banks (hereinafter NewCo) will command. Indeed, I estimate that the deposit share of NewCo will be approximately 6.8% in addressable markets (and 8.65% on an adjusted basis¹).

The deposit share gains that NewCo will realize is a continuation of the market share grab that the large banks in the US have been exercising. And while the estimated adjusted market share is very meaningful, the estimated strength in individual MSAs is even more telling. Indeed, I find that NewCo will have deposit market share greater than 30% in 10% of its MSAs (or in 20 of 197 MSAs), 20 - 30% in 38 markets (or 19% of total), and greater than 10% in fully 65% of addressable, core MSAs.

Perhaps some will argue that this increased deposit share is needed in order to effectively compete against the behemoths of Bank of America, JPMorgan, and Wells Fargo (hereinafter The Big 3). These three banks have an estimated adjusted market share of 30.2% across applicable MSAs, and 32% in the Top 100 MSAs². Very reasonably The Big 3 exercise monopolistic pricing power, and such is evidenced by examining deposit pricing.

The Federal cap on deposit share is 10%, and most states have a 30% cap. It appears that The Big 3, and to a limited degree NewCo, are creatively skirting the deposit share caps. The Big 3 already have an adjusted share of greater than 30%, and it is estimated that in 25% of The Big 3's applicable MSAs the average adjusted deposit market share is 43%.

This excessive market power must be stopped. Federal banking regulators have simply become too lax in enforcement. Further, and alarmingly, this tacit encouragement of monopolization is a national issue, and multiple sources have begun to voice concerns³. The gross consolidation of American industries has not led to economic benefits, nor has it allowed consumer gains. Rather it has simply concentrated market power, lessened healthy competition, and negatively impacted average businesses (banks).

NewCo suggests that the combination will enhance buying power, enable greater investment in technology, and help spread regulatory burdens. Community banks certainly would relish such improvements. The regulatory burdens on banking only increase (though with some reprieve from the current administration). Rate pressures continue, and industry NIMs, while up from the nadir, are flattered by the excessive free deposits The Big 3, and others, command, not to mention the excessively low rates The Big 3 control on interest bearing accounts.

The BB&T / SunTrust proposed merger is a step in the wrong direction. It allows enhanced market power at the top of a grossly consolidated industry. Regulators should be fighting *against* this consolidation. Regulators should be encouraging more competition, and less market power at the top. I trust that the ICBA, and its constituents, are fighting the proposed merger. Not only does this merger lessen competition, and likely harm consumers, but I argue that it flies in the face of state deposit caps (and The Big 3 have already done, in my opinion). I am not necessarily advocating such measures as those floated by Senator Brown (D-OH), but I do firmly believe a new view of deposit market share is greatly overdue.

1. Deposit share figures per SNL Financial (S&P Global Market Intelligence). Total deposit market share based on reported deposit figures for all footprint MSAs as of June, 2018. Adjusted market share removes BB&T Main office in Winston-Salem, SunTrust Main Office in Atlanta, and excludes New York-Newark-Jersey City MSA. Deposit share estimates do not adjust for NewCo planned divestitures.
2. Adjusted deposit share excludes Main offices, as well as excessively outsized offices across all reported MSAs.
3. William Galston and Clara Hendrickson, "A policy at peace with itself: Antitrust remedies for our concentrated, uncompetitive economy," Brookings Institute, January 2018. Gauti Eggertsson, Jacob Robbins, Ella Getz Wold, "Kaldor and Piketty's facts: The rise of monopoly power in the United States," Washington Center for Equitable Growth, February 2018. Jan De Loecker, Jan Eeckhout, "The Rise of Market Power and the Macroeconomic Implications," NBER, August 2017. Jan Hatzius, et al "Super Profits and Superstar Firms," Goldman Sachs, July 2017.