



The Local Impact of Bank Mergers on Small Business Lending: A Baltimore Example

by Mac McComas and Mary Miller

Introduction

Earlier this year, BB&T and SunTrust Bank announced a proposed merger between the two super-regional U.S. banks, a \$66 billion deal that would constitute the largest merger since the 2007 – 2009 financial crisis and result in a bank with \$440 billion in assets.^{1,2} If approved, the merger would create the sixth largest bank in the US measured by both assets and deposits. While the scale of this transaction is notable, it is part of a long term trend of bank consolidation in the U.S., with the number of commercial banks falling by half over the past 25 years. The proposed deal prompted concerns about the effect that the merger could have on market competition between community banks and increasingly larger, dominant financial institutions and branch closures in poorer communities.³ We have an additional concern about how this merger might impact small business lending.

The relocation of BB&T's and SunTrust Bank's headquarters from Winston-Salem and Atlanta to Charlotte will undoubtedly have an effect on those markets, but how will the other 78 markets where the banks have overlapping branch operations fare? As a follow on to work we have done over the past two years to study trends in small business lending in Baltimore City, we looked specifically at the small business lending performance of these two banks in this single market. Our focus does not take into account these banks' lending activity in other areas such as mortgages or larger commercial loans.



¹ <https://www.fdic.gov/regulations/applications/bbt-suntrust/>

² Federal Financial Institutions Examination Council (FFIEC) National Information Center

³ <https://www.foxbusiness.com/financials/waters-to-fed-on-bbt-suntrust-merger-wait-for-us-to-investigate>

Recent Trends in Small Business Lending and Deposits

BB&T and SunTrust Bank are respectively the fifth and sixth largest banks in Baltimore City by deposit market share with a combined \$1.1 billion in deposits in the city as of June 30, 2018.⁴ As shown in Table 1, below, they are also two of the top ten small business lenders by dollar amount in Baltimore City, with BB&T lending \$13.4 million and SunTrust lending \$9.9 million in 2017. The table also highlights that larger banks generally have a smaller average loan size reflecting a shift toward smaller balance credit cards by these banks. The two Maryland headquartered banks, Howard Bank and Columbia Bank, show the largest average loan size, with M&T Bank falling in the middle.

Table 1 – Top Ten Small Business Lenders Ranked by Dollar Amount, Baltimore City, 2017

Rank	Bank	Total \$ Amount	# of Loans	Average Loan Size	Baltimore City Deposits*
1	PNC Bank	\$36,994,000	602	\$61,452	\$2,503,551,000
2	Bank of America	\$31,939,000	1,121	\$28,492	\$11,538,150,000
3	M&T Bank	\$29,979,000	148	\$202,561	\$6,237,378,000
4	American Express	\$28,351,000	2,053	\$13,810	Not applicable
5	Wells Fargo	\$23,159,000	529	\$43,779	\$2,822,480,000
6	BB&T	\$13,355,000	139	\$96,079	\$625,599,000
7	Chase Bank	\$10,104,000	931	\$10,853	\$0
8	SunTrust Bank	\$9,897,000	152	\$65,112	\$513,220,000
9	Howard Bank	\$9,761,000	31	\$314,871	\$482,868,000
10	Columbia Bank	\$9,036,000	27	\$334,667	\$97,402,000

Source: FFIEC CRA Small Business Lending Reports

*Deposits as of 6/30/18

While both banks ranked among the top ten small business lenders in Baltimore City each year from 2007 to 2017, their ranking fell from a height of SunTrust at fourth in 2010 and BB&T at fourth in 2013. Meanwhile, they have been consistently growing their deposit base, with both banks ranking either fifth or sixth in deposit market share since 2014.

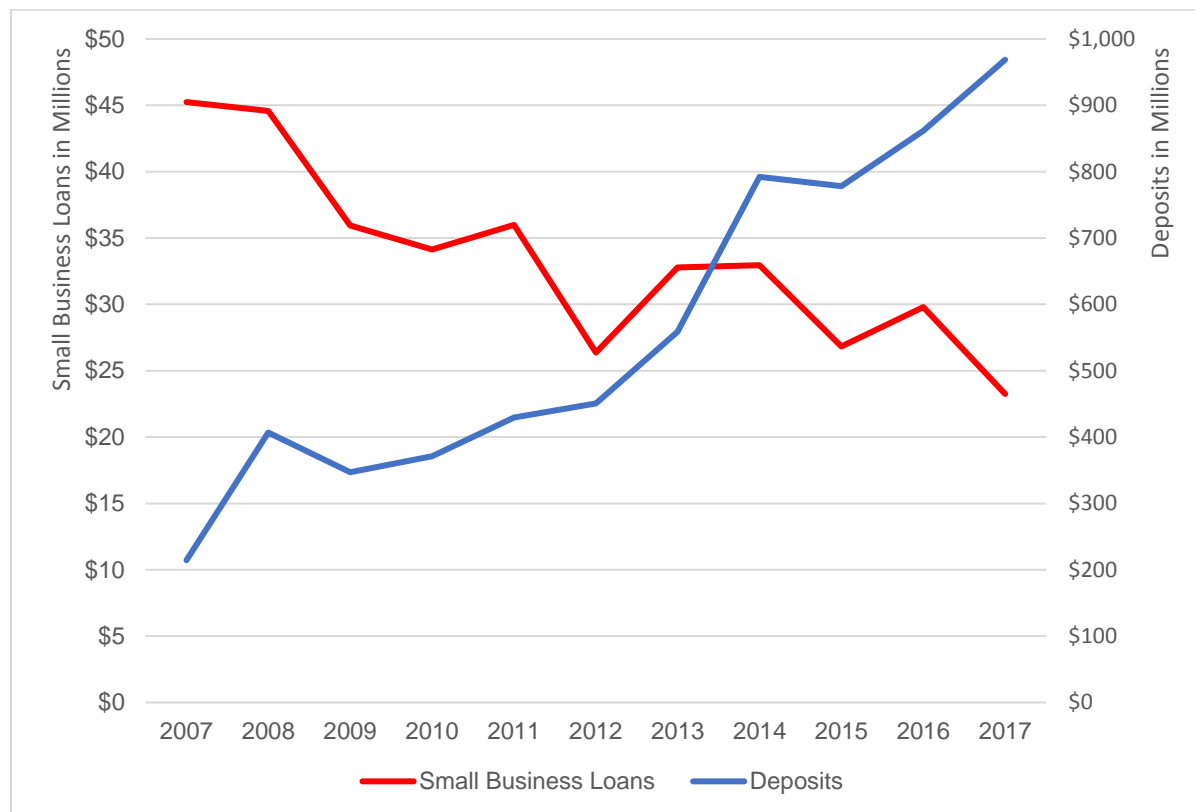
As shown below in Chart 1, the combined small business lending of the two banks fell from just over \$45 million in 2007 to a low of \$23 million in 2017 as their combined deposits grew from \$214 million to \$967 million over the same period in Baltimore City. This represents a 50 per cent decline in

⁴ June 30, 2018, Deposit Market Share Report, FDIC.



annual small business lending while deposits simultaneously increased by 450 per cent over the period.

Chart 1 – BB&T and SunTrust Bank Combined Small Business Lending and Deposits, Baltimore City, 2007 – 2017



Source: FFIEC CRA Small Business Lending Reports and Federal Deposit Insurance Corporation (FDIC) Deposit Market Share

This trend is more dramatic than that identified for all depository banks in Baltimore City over the period in our 2018 report, with annual small business lending falling by 37 per cent and deposits nearly doubling.⁵ A merger could accelerate these trends, as recent merger history in Baltimore shows. There are several examples to point to in Baltimore City, including the 2007 PNC acquisition of Mercantile Bank, the 2009 acquisition of Provident Bank by M&T Bank, and the 2010 acquisition of Wachovia Bank by Wells Fargo. In each of these cases, the amount of combined small business lending was larger in years prior to the consolidation than after.⁶

⁵ <http://21cc.jhu.edu/wp-content/uploads/2018/07/financing-baltimores-growth-strengthening-lending-to-small-businesses.pdf>

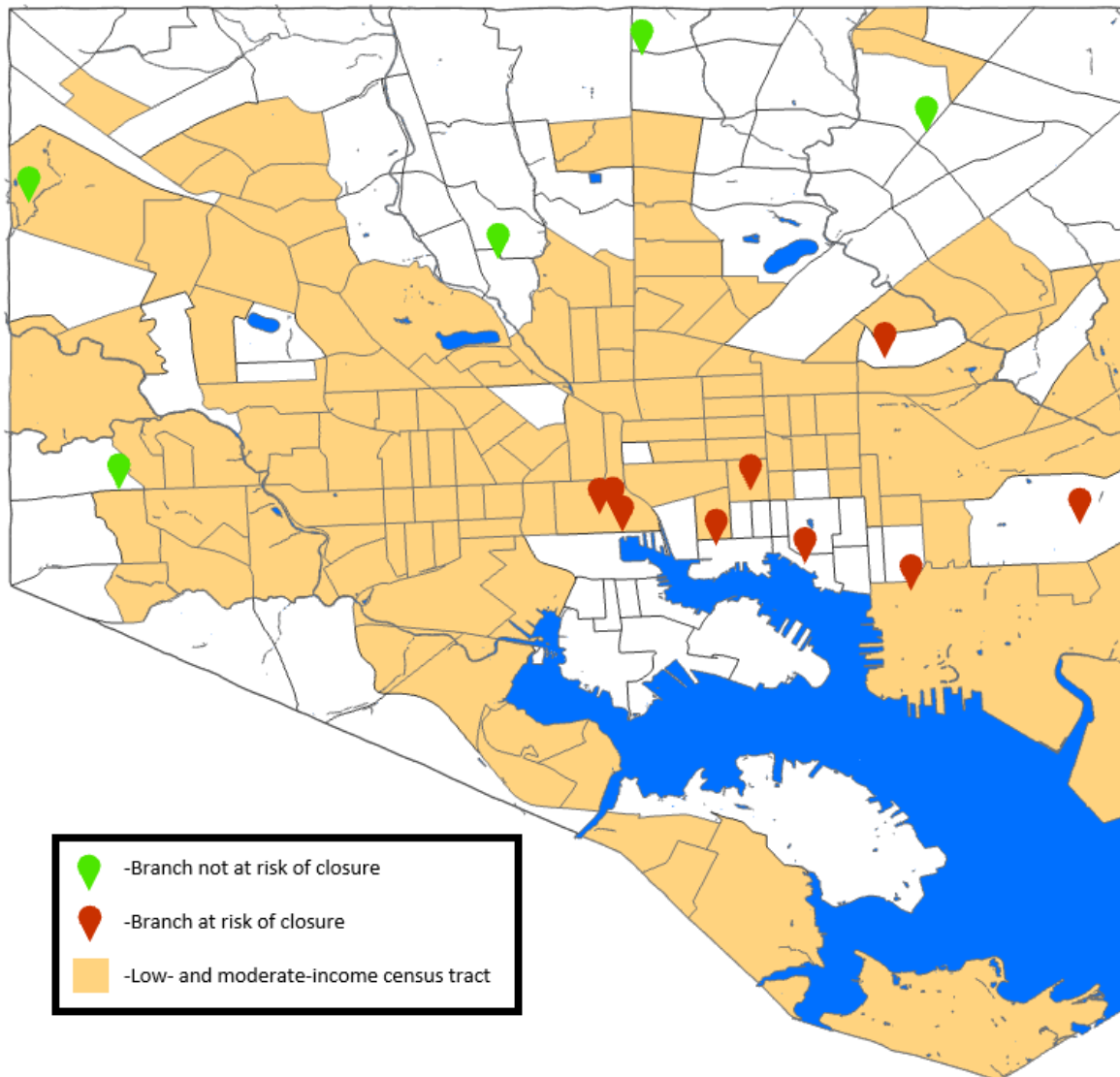
⁶ Ibid



Will Other Banks Fill the Gap?

With 73 other active small business lenders in 2017 in the Baltimore City market, one could argue that other banks could see the merger as an opportunity to expand their lending activity in Baltimore. However, only 15 of these banks made over \$5 million in small business loans in 2017. Our earlier work identified a number of banks without branches in Baltimore increasing their lending activity modestly over the last ten years, but their inroads did not change the overall trend of declining lending.⁷

Figure 1 – BB&T and SunTrust Bank Branch Locations, Baltimore City, June 30, 2018



Source: FDIC and FFIEC

⁷ Ibid



An estimated 740 of BB&T and SunTrust’s combined 3,100 branches, or 24 per cent, are within two miles of each other, a distance considered too close for a bank to have multiple branches.⁸ In Baltimore, the two banks currently have 14 branches within the city limits. Nine of these branches, or 64 per cent, are within two miles of each other. If the two banks merged, the resulting bank may close anywhere from three to five branches in Baltimore City due to proximity, as shown on page four in Figure 1 with red banks at risk of closure. The map also highlights that five of the six branches currently located in low- and moderate-income census tracts (in orange) are at risk of closure.

Community Reinvestment Act Ratings

The Community Reinvestment Act (CRA), enacted by Congress in 1977, requires a periodic evaluation of a bank’s record of meeting the credit needs of low- and moderate-income (LMI) neighborhoods in markets it serves, consistent with the safe and sound operation of the institution. As shown in Appendix A, banks receive ratings ranging from “Substantial Noncompliance” to “Outstanding” based on lending, investment, and service in low- and moderate-income census tracts in their markets, as well as individual ratings for each of those categories.

As highlighted in our 2018 paper on small business lending, CRA ratings for large banks operating in Baltimore City are calculated based on either the entire State of Maryland or the Baltimore Metropolitan Statistical Area (MSA) based on market presence (the Baltimore MSA includes the City, plus six surrounding counties.). For context, the vast majority of banks receive a rating of “Satisfactory” or “Outstanding”, as highlighted in Table 2 below, which shows the CRA performance evaluation ratings given by the three regulatory agencies for all banks examined in 2018.

Table 2 – CRA Performance Evaluation Ratings, 2018

Rating	# of Banks	% of Banks
Outstanding	135	10%
Satisfactory	1,243	89%
Needs Improvement	19	1%
Substantial Noncompliance	2	0.1%
Total Banks Evaluated	1,399	

Source: FDIC, Office of the Comptroller of the Currency, and the Federal Reserve Bank

⁸ <https://www.wsj.com/articles/suntrust-bb-t-to-combine-in-all-stock-merger-11549537817>



BB&T was given an overall rating of “Outstanding” and a lending rating of “High Satisfactory” in Maryland in the most recent review by their regulator, the FDIC, which included a review of the bank’s activity from 2014 to 2016. BB&T’s lending activity, both home mortgages and small business loans, in the Baltimore MSA reflected “good responsiveness to the assessment area’s credit needs” while “The percent of the bank’s small business loans...was below the percent of businesses located within those tracts” in both LMI census tracts in 2014 and 2015, while only in 2016 “lending performance in moderate-income census tracts was consistent with the demographic data.”⁹

The Federal Reserve Bank of Atlanta (FRBA), the regulator that oversees SunTrust Bank, rated SunTrust’s overall CRA performance as “Satisfactory” in Maryland in 2014 and 2015, as shown in Table 3 below. The bank also received a “High Satisfactory” rating for the Lending Test in Maryland. However, for small business lending, SunTrust was rated as “adequate” in the Baltimore MSA, which would contribute to a “Satisfactory” rating (see Appendix A), with the FRBA finding “The percentage of small business loans in both LMI census tracts was less than the percentage of small businesses located in these tracts.”¹⁰

Table 3 – BB&T and SunTrust Bank CRA Performance Evaluation Ratings, Maryland

	Years Rated	Lending	Investment	Service	Overall
BB&T	2014 - 2016	High Satisfactory	Outstanding	Outstanding	Outstanding
SunTrust	2014 - 2015	High Satisfactory	Outstanding	High Satisfactory	Satisfactory

Source: Federal Deposit Insurance Corporation and the Federal Reserve Bank of Atlanta

While the geographical distribution of both banks’ small business lending was found to be below the percent of businesses located in LMI census tracts in the Baltimore MSA, both banks’ were found to have “adequate penetration throughout the assessment area” and had lending levels that reflected “good responsiveness to the assessment area’s credit needs” for their lending overall, which included home mortgage lending. It would appear that the Lending Test ratings for both banks do not capture the decline in small business lending in the city, but are weighted more toward home mortgage lending activity.

How Important is the Baltimore City Small Business Lending Market?

As previously highlighted, SunTrust and BB&T are two of the largest banks in the US, with broad regional presence in many markets. Where does Baltimore City rank as a small business lending market compared to other counties where the two banks have a presence?

SunTrust has a presence in the form of branches and ATMs in ten states and the District of Columbia. In 2017, in assessment area counties where the bank made at least 100 loans, Baltimore

⁹ https://www5.fdic.gov/CRAPES/2017/09846_170117.PDF

¹⁰ <https://www.suntrust.com/content/dam/suntrust/us/en/about-us/2017/documents/crape-community-reinvestment-act-performance-evaluation.pdf>



City ranked 70 out of 89 counties by total number of loans. In these same counties, SunTrust made just over \$1 billion in small business loans in 2017, with \$9.9 million in loans in Baltimore City, or roughly one per cent.¹¹

BB&T has a presence in 15 states and the District of Columbia. In 2017, in assessment area counties where BB&T made at least 100 loans, Baltimore City ranked 146 out of 204 counties by total number of loans. In these same counties, BB&T made just over \$4 billion in small business loans in 2017, with \$13.3 million in loans in Baltimore City, or roughly 0.3 per cent.¹²

So while the banks are active in Baltimore City, other markets are attracting more small business lending. While both banks are preferred Small Business Administration (SBA) lenders, they combined for an average of only four SBA 7a loans per year in Baltimore City from 2015 to 2017. Further, the home mortgage lending market in Baltimore City is more active for both banks. In 2017, SunTrust made 683 home mortgage loans for over \$151 million, while BB&T made 339 home mortgage loans for over \$106 million.¹³

Conclusion

It is difficult to know what will result from the proposed BB&T and SunTrust merger and how it might affect local markets like Baltimore City, especially given that bank mergers of this size and scale are rare. The two banks in question have been reducing their small business lending activity in Baltimore for some time, while significantly increasing their deposits from the city. The current CRA ratings for these banks are not recent, do not provide enough granularity to show impact within the city, and of course do not take into account the larger context of bank merger history in Baltimore. Strengthening the CRA and its reporting requirements would go a long way toward helping regulators, researchers, policy makers, and the public understand how financial institutions may be affecting conditions in local markets.

21st Century Cities Initiative

The 21st Century Cities Initiative (21CC) at Johns Hopkins University is the campus hub for research, education, engagement, and outreach related to expanding economic opportunity for urbanites in developed and developing nations.

21st Century Cities Initiative
3213 N Charles Street
Baltimore, MD 21218

Contact us: 21CC@jhu.edu

www.21cc.jhu.edu

¹¹ FFIEC CRA Small Business Lending and FDIC

¹² Ibid

¹³ FFIEC Home Mortgage Disclosure Act (HMDA) reports



Appendix A: CRA Rating Matrix

Performance Criteria	Outstanding	Satisfactory	Needs to Improve	Substantial Noncompliance
Lending				
Responsiveness to credit and community development needs	excellent	good or adequate	poor	very poor
Percentage of loans made in the assessment area	substantial majority	high or adequate	small	very small
Distribution of loans among geographic areas, people of different income levels, and businesses of different sizes	excellent	good or adequate	poor	very poor
Quality of service for credit needs of extremely economically disadvantaged areas, low-income individuals, and small businesses	excellent	good or adequate	poor	very poor
Use of creative lending practices to address credit needs of low- or moderate-income people or neighborhoods	extensive	limited	little	no
Investment				
Level of qualified community development investments and grants	excellent	significant or adequate	poor	few
Use of innovative or complex qualified investments to support community development needs	extensive	extensive or occasional	rare	no
Service				
Accessibility of services to all geographic areas and people of different income levels	readily accessible	reasonably accessible	unreasonably inaccessible	unreasonably inaccessible
Way in which openings and closings of branches have affected access to services	have made more accessible	have not adversely affected	have adversely affected	have significantly adversely affected
Way in which services are provided throughout the assessment area	services are tailored	services do not vary in a way that inconveniences	services vary in a way that inconveniences	services vary in a way that significantly inconveniences

Source: Federal Reserve Bank of Atlanta

