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BB&T — was it something that was said?

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BB&T Corp. will release first-quarter results on April 18. The consensus estimate is for 69 cents per share, which is within the 66-cent to 72-cent per share band reported in the past three quarters. ROTCE should approximate an attractive 17%. Absent any surprises, the Q&A with the analysts may focus on capital management and how BB&T managed not to pass the Comprehensive Capital Analysis and Review test without qualification. A week earlier BB&T easily passed the Dodd-Frank stress test. Minimum tier one capital of 7.8% and aggregate projected net losses of 5.5% compare well with the other 17 participating banks. In January, the BB&T board approved a 15% hike in the quarterly dividend to $0.23 per share, payable March 1, 2013. That increase was proposed in BB&T's 2012 capital plan, which the Fed did not object to in last year's CCAR.

This year the Federal Reserve objected to BB&T's process, forcing BBT to resubmit its plan later this year. Last year, Citigroup Inc. and SunTrust Banks Inc. failed CCAR when their projected tier one common ratio fell below 5% in the stressed scenario. Also, Fifth Third Bancorp had the Fed nix its plans to boost its then 8-cent per share quarterly dividend. Government controlled Ally Financial Inc. has consistently flunked the tests, though maybe the turnaround in Fannie Mae and Freddie Mac's fortunes imply Ally is not as bad as advertised. There is opaqueness to the tests. For example: how does Citigroup's minimum tier one increase to 8% in the current test from less than 5% in 2012, while American Express Co. declines to 6.4% from over 10%? Wells Fargo & Co. showed virtually no change in 2013 at 5.9%. Maybe it's the consulting firms that are changing?

I doubt I am alone in being surprised by this given the high quality bank that BB&T represents. The company had issues during the financial crisis, but nothing close to the issues competitors Regions Financial Corp., SunTrust, Fifth Third, Wachovia Corp., Bank of America Corp. and others within its footprint faced. Further, BB&T did not incur the dilution that most of its peers suffered. Common shares outstanding increased 25% between year-end 2007 and year-end 2012 to 700 million, but the company acquired about $20 billion of assets from the failure of Colonial Bank in 2009 and $4 billion from BankAtlantic in 2012. EPS of $2.70 reported in 2012 compares to an all-time high of $3.14 per share in 2007.

I doubt the Q&A with the Street will shed much light on BB&T's (presumed) misstep because banks cannot comment on CCAR beyond what has been publicly disclosed. I am sure CEO King will reiterate the issue was related to process rather the BB&T's better than average capital and profitability metrics. Earlier this year CEO King noted his preference for capital deployment was to support (a) organic loan growth (guidance reflects flattish loans in the first quarter versus 2% to 4% annualized growth in the year-ago quarter); (b) dividend increases; (c) strategic opportunities; and then (d) buybacks. Given the timing of this year's dividend increase, a resubmitted capital plan presumably will pave the way for an increase in January 2014 before the next CCAR test. No blood; no foul. An increase to $0.25 from $0.23 per share would produce an annualized dividend of $1.00 per share compared to $1.87 per share paid in 2008.

We may never know why BB&T failed — assuming the Street does not privately know versus the broader investing public. Maybe it does not matter. I cannot help but wonder if the Federal Reserve was influenced by the comments of ex-CEO and Chairman John Allison, who has been outspoken that Washington's housing and economic policies were a key reason for the implosion in housing and by extension financial markets in 2008. His commentary at times about regulators' past actions and the pending impact of Dodd-Frank and the like has been pointed too. I doubt the higher rungs of the Federal Reserve's supervisory apparatus are petty, but the push back for BB&T is curious given the stellar performance of the company over the years. In fairness to Mr. Allison, former Wells Fargo CEO Dick Kovacevich has been very vocal in his criticism, too, as have other executives.

A few years ago, I heard a story about Vernon Hill, then CEO of Commerce Bancorp, at an OCC-sponsored confab for bank executives. Hill reportedly lost his temper about some regulatory issue. The context of the story was that a year or so later Mr. Hill stepped down as CEO and Chairman after the OCC barred subsidiary Commerce Bank from doing business with entities in which Hill had interests. These interests and MBS investments made from an exceptional deposit-gathering franchise had raised eyebrows among investors for several years. Four months later Toronto-Dominion Bank acquired Commerce. Assuming no embellishment was conveyed, the story implied one does not cross regulators, especially in front of other bank executives. (Note: the OCC does not regulate BB&T's banking subsidiary, Branch Banking and Trust Company).

BB&T will be okay, and it is due to outperform after underperforming the past year via producing a total return of -1% through April 5, 2013, compared to the 16% total return of the SNL Large Cap Bank Index. BB&T's southeast footprint, higher yielding specialty lending businesses and robust fee income from insurance and mortgage (for now) should provide more cushion in a yield environment that could become Japanese-like in time for U.S. banks. Maybe the broader takeaway from the 2013 CCAR and Dodd-Frank stress tests is the gradual transformation of the U.S. banking model to an informal utility model where regulators increasingly dictate returns. Some might argue this is fair if the Federal government backstops deposit insurance, provides capital in a pinch and supports asset quality via the Fed's ongoing zero rate policies, while many assets such as Agency MBS, USDA-backed loans and the like are backstopped by the government too.

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