NASHVILLE NOTES

SunTrust's corporate and investment banking unit looks to be a winner too

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There's no doubt that many community and small regional banks will be disproportionate beneficiaries of the fall-out from the BB&T Corp.-SunTrust Banks Inc. quasi-merger of equals (a 57%/43% ownership split is borderline for the "quasi-MOE" moniker). Regional banks will benefit, too, but the law of large numbers implies talent hires and maybe some deposit market share shifts in a market or two will not have the same effect as will be the case with some smaller institutions.

Another winner, I think, is an internal one: SunTrust Robinson Humphrey Inc. (STRH), the corporate and investment banking (CIB) unit of SunTrust. BB&T has a capital markets unit, too, but STRH is larger and has a sizable equity capital markets unit that BB&T lacks. Investment banking revenue, which I assume includes loan syndication and secondary market trading, totaled $599 million in 2018 and represented 6.5% of total revenues. BB&T "investment banking and brokerage fees and commission" totaled $477 million in 2018, which represented 4.1% of revenues.

Although SunTrust is smaller than BB&T in terms of total assets, capital and earnings, it is not surprising that SunTrust's CIB business is larger given the company's roots in corporate Atlanta compared to BB&T's roll-up of many community and regional banks over the years. The difference may be even larger if BB&T's investment banking line includes retail brokerage because retail investment income for SunTrust is broken out separately and is significant at $292 million in 2018.

Securities-related acquisitions also probably played a role in the different scope and scale of the two units. In 1999 BB&T acquired Richmond-based Scott & Stringfellow, which was a retail brokerage operation with a small capital markets unit. A few small bolt-on acquisitions followed too.

SunTrust got into the business (or expanded what was a very small business) when it paid $158 million in 1998 for Nashville-based Equitable Securities Corp., which was an institutional brokerage and investment banking firm. The deal was a flop, in my view, because SunTrust overpaid for a boutique as the market was peaking in the late 1990s. SunTrust then acquired Atlanta-based Robinson-Humphrey Co. for only $10 million in 2001 from Citigroup Inc. The two acquisitions combined created a decent-sized investment banking and institutional equities platform that has since been partnered with a sizable fixed income unit and corporate banking to produce what appears to be at least outwardly a well-integrated CIB business.

The capital markets and investment banking units at BB&T and SunTrust are among the many parts of the businesses to be combined in the merger. Does it matter since the combined businesses will represent about 5% of total revenues? I think it will to the clients.

Some years ago I heard someone ask JPMorgan Chase & Co. CEO Jamie Dimon about Wells Fargo & Co.'s investment banking efforts. Wells Fargo management for years had disavowed a meaningful push into investment banking as risky and too far astray from its traditional retail and commercial banking roots; however, the company inherited a substantial CIB unit with the acquisition of Wachovia Corporation in late 2008. In the years since, Wells Fargo management apparently has come to embrace the business if not with unconditional love then at least a lot of affection. Dimon predicted it when he said something to the effect that the then less-than-full embrace does not matter because clients will demand it.

Occasionally a politician will float the idea of a "new" Glass-Steagall as occurred during 2016 in the run-up to the presidential election. The repealed act has been cited by some as a contributing factor to the 2008 financial crisis; it was not. The roughly 20 years since the act was formally repealed and 30 years since it was partially unwound through limited waivers granted to JPMorgan and a few other money-center banks has validated the integrated capital provider model championed by the banks. None of the large banks that deploy a universal model have tried to unwind it, while Goldman Sachs Group Inc., Morgan Stanley and even the likes of Jefferies and Piper Jaffray have built limited lending businesses to complement debt underwriting.

The market has voted that corporate and middle-market borrowers are well-served by having the securities affiliates of commercial banks provide debt and equity underwriting to complement lending to finance the business. Besides, the corporate loan and especially the leveraged loan markets have evolved into a capital market function even though loans are not legally securities. Loans are now underwritten and distributed to other banks and institutional investors and then traded in the secondary market like corporate debt.

There are no assurances that an enlarged STRH will be successful once the integration with BB&T occurs; however, it should have the scope and capital to move up the league tables, especially in debt and loan underwriting. The timing may be good too in that European banks, especially Deutsche Bank, likely will cede market share in the U.S. due to woeful banking conditions in Europe.

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