Community Development Bankers Association
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VIA ELECTRONIC FILING

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve
20th Street and Constitution Ave. NW
Washington, DC 20551

Ms. Mary S. Johnson
Vice President
Federal Reserve Bank of Cleveland
1455 East Sixth St.
Cleveland, OH 44101

RE: PNC Financial Services Group, Inc., Pittsburgh, Pennsylvania, and PNC Bancorp, Inc., Wilmington, Delaware; to acquire BBVA USA Bancshares, Inc., Houston, Texas, and thereby indirectly acquire BBVA USA, Birmingham, Alabama.

Dear Mss. Misback and Johnson:

On behalf of the members of the Community Development Bankers Association (CDBA), we respectfully submit the enclosed comments in response to the Federal Reserve Bank of Cleveland's review of the pending acquisition by PNC Financial Services, Inc. and PNC Bancorp, Inc. (PNC) of BBVA USA Bancshares, Inc., and thereby indirectly BBVA USA (BBVA).

CDBA is the national trade association for banks and thrifts that are U.S. Treasury-certified Community Development Financial Institutions (CDFIs). Our members have a primary mission of promoting community development and target at least 60% of their total lending and activities to Low- and Moderate-Income (LMI) communities and customers that are underserved by traditional financial service providers.

The merger of PNC and BBVA is significant on a national and a local level. PNC is already the tenth largest Financial Holding Company (FHC) in the United States by assets.[1] According to

[1] www.ffiec.gov/npw/Institution/TopHoldings

PNC, the combined bank would be a "coast-to-coast franchise with a presence in 29 of the 30 largest markets in the U.S,"[2] and the combined institution is expected to have total assets of more than $550 billion. As a major participant in the financial markets, the proposed entity should be held to a high standard with respect to meeting the credit and financial service needs of LMI communities within its new, larger geographic footprint.

Under the Bank Holding Company Act, the Bank Merger Act, and the Home Owners Loan Act, the Federal Reserve Board is required to review the competitive effects of bank mergers and acquisitions.[3] Without proper oversight, any merger of this size could have significant and negative impact on economically disadvantaged areas. Specifically, such a merger could, in the words of the Department of Justice, "affect the competitive environment in retail banking markets and that in some cases may raise competitive concerns."

We are particularly concerned about the systemic threat to branch banking in underserved communities that consolidation poses – a trend reflected in the long-term history of such mergers. PNC is already one of the largest bank holding companies by headcount,[4] and reducing staff via mergers and branch closures is an effective way for financial intuitions to save money in the face of weakening efficiency ratios. PNC has explicitly stated its intention to "move up branch closures in 2020 and 2021. The company intends to close 160 branches this year and an additional 120 next year, up from a prior pace of about 80 to 90 annual closures."[5]

The combined trends of consolidation and branch closure have a vicious effect on communities. The continued concentration of assets within a handful of mega- and regional-banks has a destabilizing effect on communities when credit decisions are increasingly made far away from those communities, if credit is available at all. This destabilization is particularly acute in the precise communities that CDBA members serve: distressed rural communities, disinvested urban neighborhoods, and under resourced Native American communities.

To mitigate potential negative impacts, we strongly encourage the merged institution to enhance its community development program to ensure that LMI communities are well served through CDFIs. A key component of such a program should include initiatives that support the provision of financial services and products through <u>depository</u> CDFIs, particularly CDFI banks. The new firm should continue to develop CDFI bank initiatives that are at least comparable in size, scope, and complexity to those of its peer group. J.P. Morgan Chase, Bank of America, Citigroup, and

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[2] PNC Bank Press Release, "PNC Announces Agreement To Buy BBVA USA Bancshares, Inc.", November 16, 2020

[3] www.federalreserve.gov/bankinforeg/competitive-effects-mergers-acquisitions-faqs.htm

[4] Lauren Seay, "US banks focused on cost-cutting efforts as efficiency ratios deteriorate," S&P Global Market Intelligence, Wednesday, December 16, 2020

[5] Nimayi Dixit, "COVID-19 sets the stage for accelerated digital banking investments," S&P Global Market Intelligence, Thursday, September 17, 2020

Wells Fargo are the next most comparable banks in asset size to that of the proposed merged bank, and the volume, complexity, and flexibility of their CDFI initiatives can serve as models.

In announcing the acquisition, PNC stated its intention to "include all new markets" in key community-focused initiatives, while "maintaining its commitment to those it currently serves." This includes "PNC's 2020 pledge to provide $30 million in charitable support for COVID-19 relief efforts, and a $1 billion commitment announced earlier this year to support economic empowerment and combat systemic racism of Black Americans and low to moderate income communities."[6]

CDFI banks are poised to help PNC follow through on these pledges. During the COVID-19 pandemic, CDFI banks have been central to the efforts of federal, state, and local governments as well as the efforts of the financial services industry to respond to the urgent needs of people and small businesses in LMI and otherwise underserved communities, including those with rural, minority-, and women-owned businesses.

To fulfill these pledges, we strongly recommend that PNC consider increasing its CDFI bank deposit-placing program, given the proven impact and effectiveness of these CRA-qualifying "investments" and their relative ease (please see the Certificate of Deposit Account Registry service, or "CDARs," as an example).

Further, to achieve a higher degree of community impact and CRA-related innovation and flexibility, we urge PNC to increase support for CDFI banks with investments of Tier 1 qualifying capital. Appropriately structured equity investments and subordinated debt can be the most powerful forms of capital that a CDFI bank can receive. Long-term, patient equity capital from private partners can have a direct and catalytic effect on a financial institution's capacity to serve customers and communities that most need investment. In the past several months, multiple opportunities have emerged to make this process easier. For example, PNC can consider the FDIC's "Mission Driven Bank Fund." The goals of the FDIC's new fund align very well with the needs of underserved communities and the CDFIs that serve them.[7]

Simply, it is insufficient to continue old practices at prior activity levels and to reduce branch services without compensating activity, when prior models are based on pre-merger growth projections and the economic situation has deteriorated so severely for underserved communities.

In summary, we strongly encourage the Federal Reserve to ensure that the new bank created by the merger of PNC and BBVA has a flexible and innovative community development program

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[6] PNC Bank Press Release, "PNC Announces Agreement To Buy BBVA USA Bancshares, Inc.", November 16, 2020

[7] "The Mission-Driven Bank Fund", www.fdic.gov/regulations/resources/minority/mission-driven/infographic.pdf

that engages productively with CDFI banks as appropriate for its size, scope, complexity, and expanded retail customer base. The new bank must embrace the opportunity to work with and support regulated depository CDFIs within their markets.

Thank you for the opportunity to comment on this important issue.

Sincerely,

Jeannine Jacokes
Chief Executive Officer