



The big bank that blessed Brat's upset of Eric Cantor

By Michael Santoli

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One of the instant storylines dangled by Prof. David Brat's surprise primary drubbing of Rep. Eric Cantor in Virginia Tuesday is that it's a defeat for big U.S. banks, which were staunch backers of the majority leader (and vice versa). Yet one large banking institution, based next door in North Carolina, was firmly opposed, in name and spirit, to Cantor's incumbency.

Brat is a professor of economics and business in the BB&T Moral Foundations of Capitalism Program at Randolph-Macon College in Ashland, Va., established by a foundation arm of BB&T Corp. (BBT), the tenth-largest bank-holding company in the country. The program is rooted in the libertarian "pure capitalist" teachings of writer-philosopher Ayn Rand and was created by BB&T's former longtime chief executive and current Cato Institute president John A. Allison, a key patron of the Ayn Rand Institute. Brat co-authored the paper "An Analysis of the Moral Foundations in Ayn Rand," and told the National Review several months ago that, while he doesn't consider himself a Randian, he appreciates the writer's free-market philosophy.

The BB&T philosophy

Allison not only espouses the Randian vision of minimal state involvement and absolute individualism, but he rooted BB&T's corporate culture in this philosophy as well. The bank — which has \$185 billion in assets, a \$28 billion stock-market value and a leading position in retail and business banking in the Southeast — requires employees to adopt a "BB&T Philosophy" described in a 20-page guide available on its Website.

It begins by stating that: "Our ultimate purpose is to create superior long-term economic rewards for our shareholders. This purpose is defined by the free market and is as it should be."

While not a controversial position in business-school lecture halls or hedge-fund conference rooms, such a declaration is in vivid contrast to many banks' fuzzy message lines about fostering community prosperity and serving all their constituencies at once. BB&T certainly emphasizes delivering good client service, and consistently scores well in industry customer-relations rankings. Yet it is more explicit about the fact that this is a means to the end of delivering shareholder returns, and is blunt about creating an individual-first, sink-or-swim organization.

The manual goes on: “All associates are challenged to use their minds to the optimum to make rational decisions. In this context, each of us is responsible for what we do and who we are. While we learn a great deal from each other and teamwork is important at BB&T, each of us thinks alone. Each of us must be willing to make an independent judgment of the facts based on our capacity to think logically. Just because the ‘crowd’ says it is so, does not make it so.”

Also: “Individuals should be evaluated and rewarded objectively (for better or worse) based on their contributions toward accomplishing our mission and adherence to our values. Those who contribute the most should receive the most. ... We consciously reject egalitarianism and collectivism.”

Allison started his banking career at BB&T (formerly Branch Banking and Trust Co.) in 1971, and became CEO in 1989, honing his worldview informed by Rand’s novel “Atlas Shrugged” and imbuing his bank’s culture with it during the 1990s.

A chapter on Allison excerpted here from “I am John Galt: Today’s Heroic Innovators Building the World and the Villainous Parasites Destroying It,” by Donald Luskin and Andrew Greta, begins in a moment of indignant disgust for the bank chief, when the government forced him on the eve of his 2008 retirement to accept TARP bailout funds, despite his company’s strong capital position. The Treasury insisted that both healthy and ill banks accept government capital, as a means of reassuring the financial markets that the system was sound and could withstand further economic shocks.

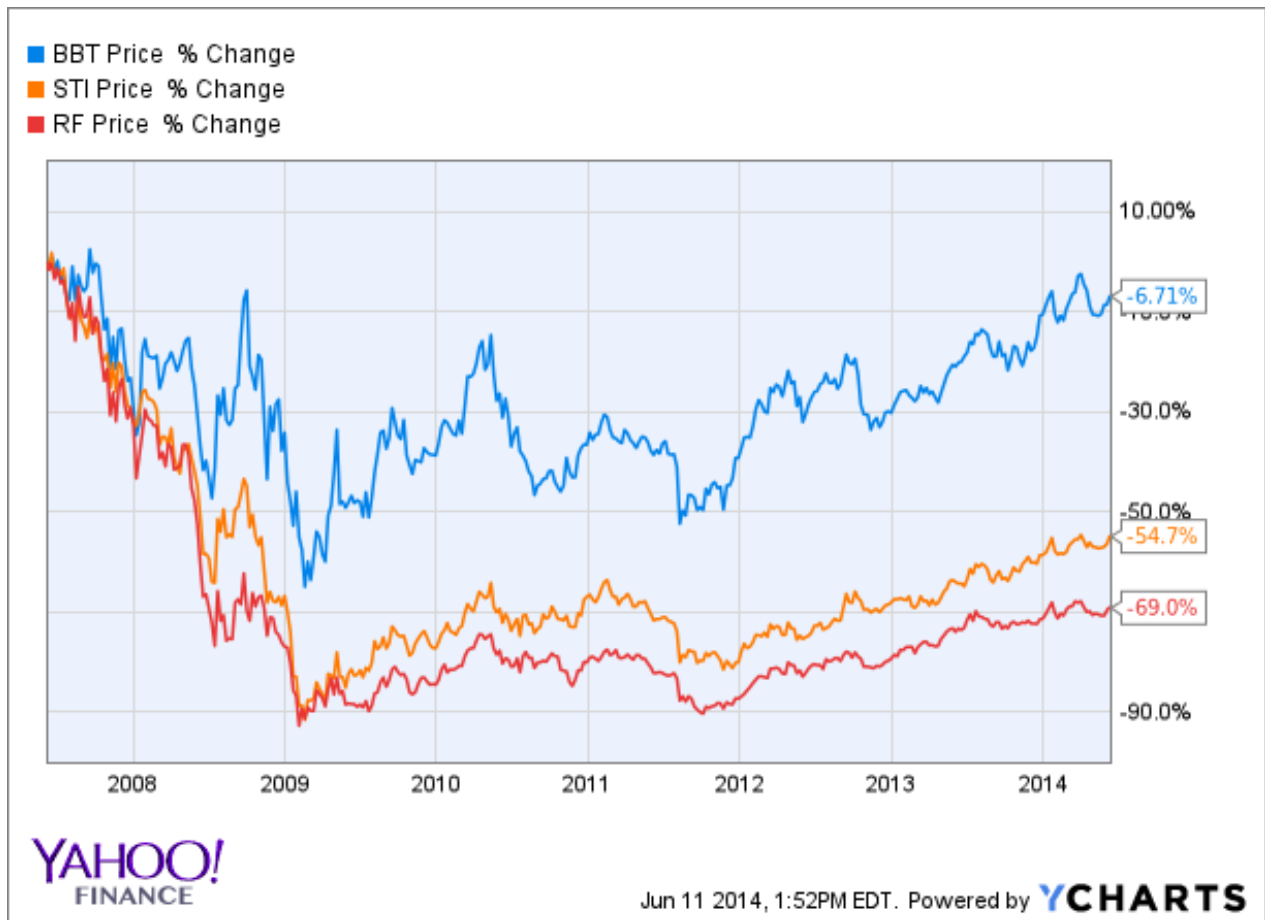
Allison told the authors this was “a huge rip-off for healthy banks,” and that “It is right out of ‘Atlas Shrugged.’ I mean, it’s eerie. It is eerie. It is eerie.”

Allison went on to write “The Financial Crisis and the Free Market Cure: Why Pure Capitalism is the World Economy’s Only Hope,” released in 2012 and lauded by Koch Industries chairman and major conservative political donor Charles Koch.

Wall Street analysts and investors occasionally remark on BB&T’s unorthodox culture. But mostly they view it as a well-run bank with a strong retail franchise and good geographic scope, generally resistant to pursuing growth when the industry gets overheated.

As a result, the bank has outperformed its industry over the long term and especially in credit-cycle downturns, while lagging the short-term growth rates and stock gains of more- aggressive peers in higher-risk growth periods such as now.

BB&T shares have dramatically lagged regional peers SunTrust Banks Inc. (STI) and Regions Financial Corp. (RF) over the past two years. But dating back seven years, to before the credit crisis erupted, BB&T stock has outperformed those of its close competitors by more than 50 percentage points.



BBT, STI, RF

By coincidence, on Wednesday morning Allison’s successor as CEO, Kelly King, spoke to investors at the Morgan Stanley Financials conference in New York. King has been a banker since 1973 and arrived at BB&T in the mid-1980s, serving in a series of executive positions.

While he wasn’t asked about the electoral upset turned by Brat, a few of his comments revealed the bank’s pride in going it along and disdain for government involvement in the economy.

Asked whether the willingness of “government-sponsored enterprises” Fannie Mae (FNMA) and Freddie Mac (FMCC) to accept mortgages underwritten with looser terms, King said: “We never try to chase what the GSEs do, because they do a lot of silly stuff. We did not chase their standards all the way down [during the last cycle], which is the reason we didn’t have as many problems.”