



Bank Strategy Briefing

Ideas and analysis for community bank executives

De novos are back

We have written in recent years that a new round of de novo activity is inevitable as community banks consolidate, interest rates thaw and technological differentiators become apparent. Today, a new age of de novo banks is becoming a reality. Here are a few facts and observations that we find interesting:

1. A modest but meaningful increase

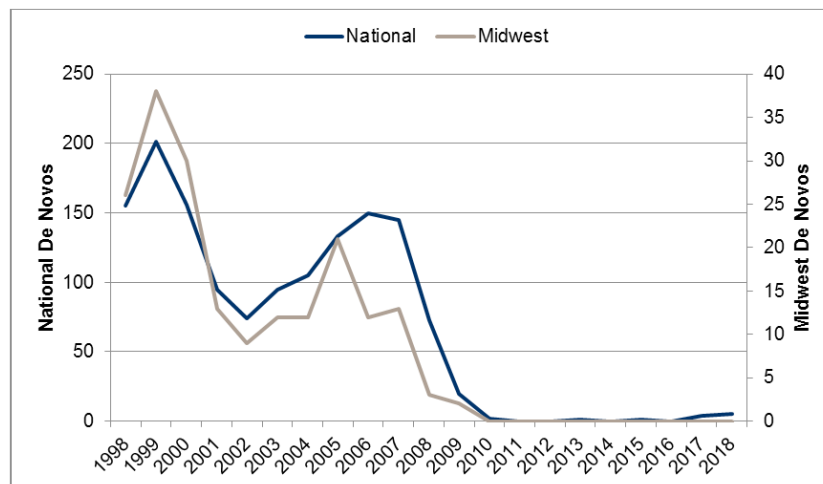
From 1998 through 2008, the average number of de novo banks established in the U.S. and in our select Midwest region (IA, IL, MI, MN, MO and WI) annually was 126 and 17, respectively. Those averages plummeted to nearly “0” until 2016 when de novo applications began trickling in again.

In 2017, four de novo banks opened for business, with another five so far in 2018. Even more interesting is that there are a total of 19 recently filed applications pending with the FDIC, meaning that this trend of new banks will continue through 2018 and into 2019.



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20 Year De Novo Trends¹

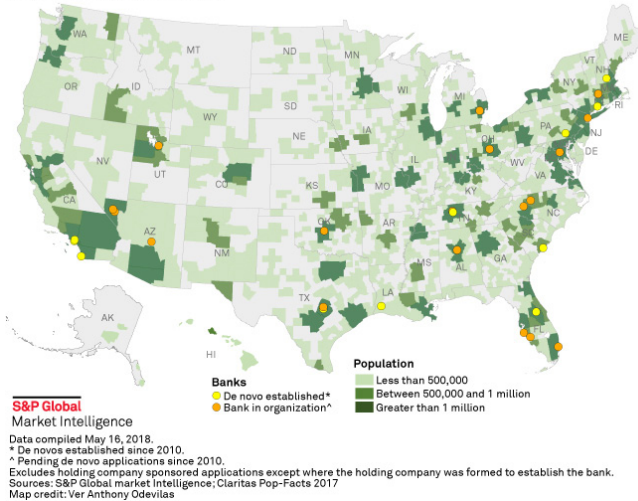


2. Population hubs

Organizers are focusing on densely populated urban areas, particularly in markets where there has been significant bank consolidation. Based on FDIC applications, the Midwest has not seen much de novo interest, likely due to the relatively large number of banks still headquartered here. However, in March, an application was filed by organizers of MiCommunity Bank in Michigan.

¹National and select Midwest (IA, IL, MI, MN, MO and WI) de novo bank formations from 1/1/1998 through 6/30/2018.

Population by MSA as of 2018



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3. Capital requirements

The amount of capital required for regulatory approval continues to be the subject of misinformation. While it is true that regulators will generally require more capital than in the past, the notion that every de novo needs \$20+ million in initial capital is simply not true. Regulators appropriately base initial capital requirements on organizers' proposed markets, business plans and, in particular, anticipated growth rate.

4. Quality organizers

All of the recent organizing groups have one critical attribute in common: the quality of their people. Seasoned bankers, banking industry experts and local business executives are common themes, along with other recognizable figures within the community (such as, in one case, a former governor). High caliber organizers are not only necessary to obtain regulatory approval, but they also serve as a strategic advantage within the marketplace when the bank opens for business.

5. Value in first to the market

Being first to the market has significant advantages for de novo organizers. In particular, organizing groups enjoy tremendous press and "buzz" leading up to and after opening for business. In addition, de novo banks are in a position to immediately differentiate themselves from their competitors by offering new technologies and customer experiences without the challenge of changing decades of past operational history.

* * *

It is a matter of "when" not "if" de novo formations will commence again in our Midwest region. The opportunity appears to be ripening for the right organizing group, in the right market, with the right business plan.

Bank Strategy Briefing is prepared by the Banking & Financial Institutions Practice Group at Godfrey & Kahn, S.C., Milwaukee, Wisconsin, as a service to the community banking industry. It features commentary focusing on strategic business and legal issues relevant to community banks. Each written edition contains 500 words or less and no more than 2 editions are published per month. Information found in Bank Strategy Briefing is for educational and informational purposes only and is not to be construed or relied upon as legal advice.

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