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Is the New-Bank Logjam Finally Breaking?

by Joe Adler

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WASHINGTON — In a more normal environment, the founding of a New England community bank to serve small business borrowers would fill the back pages of a newspaper. But regulators' approval of a small bank in Bedford, N.H., is a potentially major development that signals a crack in the government's apparent reluctance to allow new bank charters.

Primary Bank is just the second new bank to be approved in more than four years, and charts a potential path for other applicants to follow. The approval, which was reported last week, came more than a year after regulators signed off on Bank of Bird-in-Hand in Pennsylvania in late 2013.

"This does now open the logjam. Now the [Federal Deposit Insurance Corp.] has a process, and as long as future applicants follow that process, they should be in good shape," said Donald Musso, president and chief executive of the consulting firm FinPro, which worked with the new bank's organizers to move the application.

Musso said he is in conversations with four other clients possibly interested in filing de novo



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applications, although nothing is official yet.

The regulators are "working really hard in trying to open the doors for new de novos to form, but the standards are pretty high," he added. "You need \$20 million-plus of new capital, which is a lot of capital. You've got to have enough capital to make it to profitability."

To be sure, one approval hardly makes a trend, and Primary Bank's application appeared to have advantages others lack. That includes the absorption of other New Hampshire banks through acquisitions by larger players, making the area fertile ground for startups.

But observers said the approval does offer hope that regulators and investors are more willing to consider bids as the economic rebound continues.

"I don't believe there is going to be a mad rush for de novo banks, ... but hopefully we're going to start seeing some de novo formations," said Byron Richardson, senior consultant for Bank Resources in Atlanta. "A flurry of de novo formations have often come at the end of a down economic cycle. Hopefully, not only the FDIC but the other regulatory authorities are warming up to the possibility of establishing de novos."

The bank, which was approved, with conditions, for deposit insurance by the FDIC and for a state charter by the New Hampshire Banking Department, is being presented as a traditional small business lender, projected to exceed \$300 million in assets after the first five years. The organizers plan to raise a total of \$25 million in capital by June in advance of a summer opening. The institution does not plan to offer single family mortgages.

The group forming the institution, led by area real estate developer and restaurant owner William Greiner, saw an opportunity after Hampshire First Bank, located in Manchester, was acquired by a larger bank in 2012, eliminating a key locally owned institution. As the ownership group assembled and prepared the application, two other area banks — Centrix Bank, located in Bedord, and Nashua Bank — were also sold.

"The number one thing is to justify that the market can support a new startup bank that is not widely overbanked," Musso said. "There needs to be a good, solid management team that doesn't have any warts. It would be awfully hard to get a president of a failed bank approved to head a de novo."

Richardson said a critical obstacle to new-bank formations lately has been finding investors willing to earn a slow rate of return in the face of heavy capital requirements and other regulatory burdens.

"A founder or organizer is not just going to put their money in a mattress," he said. "Part of the equation is: How much capital will the regulators require? But then with the cost of complying with the regulatory burden... how much money can the bank itself earn?"

He added that a lack of local ownership — sparked by an area acquisition — means the potential for faster growth, pointing to Primary's case as an example. "That often opens up opportunity for a bank.... I would be optimistic and say they will be successful," he said.

In an interview, Primary Bank's Greiner said the potential for growth for a startup in the region made up for any potential doubts of a small institution succeeding in the tough regulatory environment.

"There has obviously been some concern with Dodd-Frank and regulations, and some people say, 'That's why there's not banking activity,'" Greiner said. "Our going forward is testament to the fact that we can see opportunity. We're not focused on some of the noise per se."

Greiner said he sensed positive feedback from regulators on the application when the organizers as part of their pitch promised to find a large group of investors to provide the initial capital.

"Most banks start with five, eight, maybe 10 individuals.... I felt it was important, given the environment, to have a bigger, broader group. We talked about having potentially 50 investors in that initial round," he said. (They ultimately raised an initial \$3 million from 133 individuals.) "I thought if we could get 50 community leaders, business owners, professionals, to come and take a stake in this bank, it would make a statement that it's not a club... but really a community-based initiative," he added.

Running the bank as chief executive officer and president will be William Stone, formerly president of the Bank of New England. Among the board members are Greiner and former New Hampshire Gov. John Lynch.

The group selected the name Primary Bank from a list of candidates. Greiner said it was inspired in part by the state's status as holding the first-in-the-nation presidential primary. "It gives us the opportunity to have that buzz that's out there every four years," he said. "We're going through that cycle right now."

Musso said the bank's founders may also have benefited from the fact that no banks failed in their region during and since the crisis. (The last New Hampshire failure was in 2001, according to an FDIC spokesman.)

"Over the past four or five years, the FDIC had an unwritten rule that said you couldn't start a de novo in a market where there's been a bank failure," he said. "Shoot, in almost every market in the county we had a bank failure. We did not have a bank failure in New Hampshire. It was a clean application in a clean market, which met all the criteria."

Other factors in the bank's favor, Musso added, included a clear plan by the institution to stick with core funding. "It's not going to be through levered arbitrage where it brings in borrowings and goes out and buys investments," he said. "It's got to be real core deposits and real loans."



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