

De Novo Community Bank Formation Needed to Support a Competitive U.S. Financial System

On behalf of the more than 5,800 community banks represented by ICBA, we thank Chairman Luetkemeyer, Ranking Member Clay, and members of the subcommittee for convening today's hearing entitled "Ending the De Novo Drought: Examining the Application Process for De Novo Financial Institutions." ICBA is a leading advocate for regulatory policies that will foster the creation of much needed de novo banks. We are pleased to offer this statement for the record.

A vibrant financial services industry that meets the credit and banking needs of consumers and small businesses in all regions of the country requires a steady influx of de novo charters. Unfortunately, de novo charters have come to a virtual halt. Only three new banks have opened for business since the financial crisis. Meanwhile, the pace of consolidation has accelerated, the number of community banks has dwindled, and more American communities have been stranded without a local bank.

This is a dramatic shift from prior years during which de novo bank formation averaged over 170 per year. Even in the depths of the savings and loan crisis in the 1980s, when 1,800 banks and savings institutions failed, an average of 196 de novo banks and savings institutions were formed annually from 1984 through 1992.

ICBA believes that it is imperative that the FDIC establish an application process and tailored regulatory environment that encourages and facilitates the formation of de novo banks. ICBA advocated for and ultimately won a significant and favorable change in FDIC policy. De novo bank applicants are no longer required to provide upfront capitalization sufficient to maintain a Tier 1 leverage capital ratio of at least 8 percent for the first *seven* years of operation – which had been a significant deterrent to applications. The FDIC agreed to reduce the initial capitalization period to the first *three* years, with an accompanying reduction in the amount of upfront capital required. Also, the business plan submitted with the application can cover the first three years of operation, not the first seven years.

The FDIC also conducted a series of four outreach meetings during 2016 in different regions of the country on the topic de novo charters. ICBA participated in these meetings. ICBA applauds the FDIC for changes to the application process and requirements and for hosting outreach meetings.

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Because restarting the influx of de novo banks is so important to our financial system, ICBA is pressing the FDIC for additional changes to the application process. In particular, the FDIC should streamline the voluminous financial projections and marketing plan that an applicant must submit as part of their business plan. Not only is the business plan requirement overly detailed and burdensome, but if an application is approved and begins operations, it is not permitted to deviate from its business plan without regulatory approval. A de novo banker at the FDIC outreach meeting in New York described how his bank funded itself with CDARS reciprocal deposits only to find out that the FDIC considered them to be brokered deposits as well as a deviation from the banks' business plan. The FDIC nearly forced the bank to unravel all of its deposit transactions. The prospect of three years of intense scrutiny over a new bank's business practices and capital levels – significantly more intense than the scrutiny applied to an established bank – is an additional deterrent to de novo applicants.

Of course, reform of the application process and the initial period of regulatory scrutiny is not sufficient to jump start de novo applications. The current regulatory and tax environment for community banks, new and established, is daunting and acts as a strong deterrent to potential de novo applicants. That is why ICBA has been working closely with Congress to advance the 2017 Plan for Prosperity: The Community Bank Agenda for Economic Growth.

ICBA thanks this committee for its support for meaningful regulatory and tax relief for community banks to spur de novo applications and to increase the flow of credit among established community banks. This relief will create a more competitive financial system and spur economic growth and job creation. ICBA's recommendations for regulatory and tax relief are set forth in our Plan for Prosperity, a copy of which is attached to this statement.

Closing

Thank you again for convening this hearing and raising the profile of a critical issue for the financial system and for the American economy. ICBA looks forward to continuing to work with the committee to promote de novo banks and to enact regulatory relief for existing and prospective community banks.

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