

De novo market unlikely to recover in 2010, experts say

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By [Christina M. Mitchell](#)

As anyone with an eye on the banking industry knows, de novo activity plunged in 2009, hampered by what insiders described as regulatory roadblocks and investor skittishness. But will 2010 get any better?

All signs point to 'no,' agreed several de novo consultants who spoke with SNL.

"I don't see anything happening in 2010," said Lee Bradley, a managing director for financial advisory firm Compass Point Research & Trading LLC.

Of those organizing groups still in existence, many if not most have begun to look for possible acquisitions, the experts said. Estimates as to how long it might take for traditional de novo strategies to regain in popularity varied, but the bank consultants who spoke with SNL agreed that much depends on the state of the regulatory environment.

In some instances, de novo organizers received charter approvals from primary regulators but [withdrew](#) the applications after failing to obtain new deposit insurance from the FDIC. "You might get approval from the OCC or the OTS or individual states, but the big obstacle is the FDIC," Bradley told SNL.

The slowing number of new applications does not stem from a lack of interest on the part of organizers or investors, but rather the uncertainty of the process in this environment, said Donald Musso, president and CEO of FinPro Inc., a New Jersey-based financial institutions consulting firm. "The problem is from a regulatory standpoint, although there's not an exclusive moratorium out there, there's not a lot that are getting approved, and many are being pushed [into buying an existing charter]," Musso told SNL.

Furthermore, the situation is exacerbated by the specter of pending federal reforms, Musso argued. "I think that until regulatory reform is settled and we know who the players are going to be and who's going to regulate what entities and the like, I don't see this market freeing up," he told SNL.

States with the most de novo charter applications			
State	Banks in organization	Approved charters	Capital to be raised (\$000)
Illinois	5	2	33,760
Georgia	3	2	33,000
New Jersey	3	0	53,000
Utah	3	0	NA
California	2	2	22,500
Oklahoma	2	1	22,000
Pennsylvania	2	2	39,000
Arizona	1	1	17,000
Colorado	1	0	15,000
Connecticut	1	1	NA
Florida	1	0	15,000
Indiana	1	1	12,500
Louisiana	1	1	12,000
North Carolina	1	0	16,500
New Hampshire	1	0	17,686
New York	1	0	NA
Ohio	1	0	11,000
Texas	1	0	22,000
U.S.	31	13	341,946

As of Dec. 10
 Data collected from regulator websites and de novo applications, among other sources.
 Excludes banks and thrifts where SNL has determined that the majority of startup capital is provided by a pre-existing institution.
 Approved charters refer specifically to charter applications filed with primary regulators (OCC, OTS or state banking regulators) and does not include deposit insurance applications filed with the FDIC.

Even the acquisitions seem poised to become more difficult to complete, said Byron Richardson, president of Atlanta-based Bank Resources Inc., a consulting firm. "I think the regulators are going to look [at deals] much closer, and they're going to look at the quality of the investors, and what their motivations are," Richardson said. Experience levels also will be key to regulators scrutinizing the proposed new management's ability to lead the acquired institution in a down economy, he added.

The impact of the financial crisis is likely to linger in the de novo market, the experts said, as the rules of the game are changing — perhaps permanently. "I think it's going to be harder to get these things formed in the future, because it's going to take a lot more money," Musso told SNL. He estimated that future de novos will need to raise a minimum of \$20 million in capital to form, up from the

\$10 million to \$12 million minimum commonly used in recent years.

Regulators also will likely take a harder look at organizing groups' business plans for any would-be de novo, Bradley said. As part of a policy [change](#) that [extended](#) the de novo supervisory period, the FDIC recently indicated that it would be looking closer at the business plans of all new institutions through their seventh year of operations, with prior regulatory approval required for any "material changes" to the plans during that period.

Bradley predicted that increased regulatory scrutiny across the industry — not just for de novos — would lead to a wave of consolidation that will provide an opening for some new banks to form in the future, if they can win regulators' blessings.

"There will be some de novos coming, because we're going to have fewer banks, and so there's going to be some niche opportunities to come in, but I don't see that happening for at least the next year or two," Bradley told SNL.

Sebastian Hindman contributed to this report.