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Start Me Up

In Mass., New Banks A Non-Starter

Strict Regulations, Poor Economy A Drag, But That's Not All Bad

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Today

Of the 12 FinPro clients recently hoping to open new banks, nine have since dropped the idea and decided to buy existing institutions instead.

That doesn't surprise Donald Musso, owner of the consulting company, which has an office in Newton. What's perhaps more surprising, he said, is that anybody still wants to give it a try at all.

Weigh In

Do you think it's a good time to start a bank? Click [here](#) to vote in our online poll.



"We actually have three who are going for it," he said, in Connecticut, New York and the Midwest.

Locally, others are also kicking around the idea. William P. Mayer, a partner with Boston-based law firm Goodwin Proctor, said he knows of two groups interested in starting new banks in Massachusetts, specifically in the MetroWest area.

Still, Musso and other experts agree that, by and large, this is a rough time to try and start a new bank. Capital requirements are higher, regulators are tougher and investors are harder to attract.

On the surface, it might not appear so difficult in Massachusetts. The state's newest bank, Newton-based First Commons Bank, opened in July 2009.

But according to the FDIC, First Commons was one of only four banks nationwide to get up and running in the past year.

A Problem, Or An Opportunity?

Local sources disagree on whether the current dry spell of new bank startups is really a bad thing. Some argue that new competition is good for the industry as a whole, while others say the market is well-served already.

Timothy T. Telman, CEO of the Bank of Cape Cod, which was formed in 2006, questioned the usefulness of welcoming more banks into the current banking industry. Telman and other bankers say they are more than meeting demand, particularly where loans are concerned. Telman said local banks would love to lend more, but that quality borrowers are rare.



William Mayer

"At a time when business is relatively slow, why would there be a need for new banks?" he said. And when business returns, existing banks will have enough "dry powder" to meet demand for quite some time.

Musso disagrees. New banks do help spur lending by creating more competition for borrowers, he said. Fresh banks might take on different would-be borrowers than their more-established counterparts, and the competition would help lower rates and loosen too-strict standards.



Donald Musso

“The community banks say, ‘[loan applicants] are unqualified,’ but you’ve got to be so qualified today, hardly anybody can get a loan,” he said. More new banks would get more money circulating.

Existing banks, on the other hand, benefit from the de facto moratorium on new competition, he added. Not only are customers easier to come by, but their existing charters are rarer, and being one of a few makes them more valuable to would-be investors and acquirers.

One thing everyone agreed on: The pace of de novo – or startup – banking has nearly ground to a halt, and is likely to stay anemic for the next few years.

Gone Today, Here Tomorrow

Many bankers start banks with the express goal of selling them within a few years. Under previous regulations, banks were held in their “de novo,” status for three years, during which time regulators kept them on a tighter leash. But in August 2009, the FDIC announced that those three years would be extended to seven, making it tougher to take more risks or change strategies for a longer period of time.

That doesn’t please investors, who will have to wait longer to see returns, said Telman. They’re more likely to invest elsewhere, making it challenging for would-be new banks to amass enough startup capital.

Musso pointed to stiffer capital standards – a decade ago, it was fairly easy to get regulatory approval with maybe \$10 million to \$12 million in startup capital. Now, he said, \$20 million is the benchmark.

Looking more broadly, M. Dale Janes, CEO for Springfield-based Nuvo Bank, which opened in 2008, said the economy is still on rocky turf, which makes good loans harder to come by and presents a daunting challenge for de novo banks, which typically don’t expect to make a profit in the first two or three years of their existence.

FDIC figures from the first quarter of 2010 show neither of Massachusetts’ two newest banks, First Commons and Nuvo, had yet to turn a profit, though both have seen their assets grow steadily.

Since First Commons opened last summer, its assets have reached \$94 million, as of the end of the second quarter. Nuvo Bank had \$41 million in assets as of the first quarter, according to the latest figures available from the FDIC.

But another would-be Massachusetts bank, Lawrence’s Veritas Bank, got put on hold indefinitely by the FDIC last spring.

While others focused on the obstacles to startup banks, Mayer noted that there are good reasons for starting a bank now: While existing banks often have bad loans weighing down their portfolios, new banks can do business without that burden. In addition, customer sentiment is currently still in backlash mode against giant institutions, meaning they’re more favorable to small community banks.

And while Massachusetts has plenty of banks, there are always underserved areas – including MetroWest – that are appealing to would-be bankers, Mayer said.

Mergers and acquisitions are likely to heat up in the local banking environment, and that disruption will drive more bankers from their former homes and send them looking for new opportunities, which usually involves de novo banking. And while regulators are widely seen as being harsh right now, that will likely ease as the industry gains more distance from the economic rollercoaster of recent years.

“The regulatory environment is not hospitable to de novos,” Mayer said. “Will that always be the case? No. Will we see more de novo activity in the future? Probably.”



M. Dale Janes

Source: FDIC

Thinning Ranks

The number of bank startups has fallen drastically nationwide in recent years. Last year, only 29 banks got off the ground, an 83 percent drop since peaking in 2006.

Year	No. of banks founded
▶ 2005	154
▶ 2006	171
▶ 2007	169
▶ 2008	94
▶ 2009	29

Source: FDIC