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FinPro CEO: Do not be 'fear mongered' into merging; reg reform no death knell

By [Robb Soukup](#)

Though community banks face myriad difficult issues associated with the overhaul of the financial regulatory system, FinPro CEO and founder Donald Musso said Nov. 3 that community bankers should not assume they'll have to merge to survive.

Speaking at the company's bank presidents and directors conference, Musso dismissed the idea that smaller community banks will be forced to seek consolidation en masse as they work to absorb an increased cost structure expected to accompany the implementation of the Dodd-Frank Act. He took aim at a common sentiment floating among the industry that community banks will need to have \$1 billion in assets to be profitable with increased compliance costs.

"That's bunk," Musso said, cautioning those in attendance to "not be fear mongered into thinking that you've got to consolidate just to get to the \$1 billion threshold." He added that FinPro works with smaller institutions with \$250 million in assets and up that are turning a profit, and said other groups might have more to gain from a consolidation wave than community banks themselves. "You do not need to be \$1 billion to survive. You need to be \$1 billion so that investment bankers can make money," Musso said. He acknowledged that economies of scale would certainly accompany mergers to bring banks to that level, but said careful strategic planning could help community banks survive the new environment. He also said a consolidation movement will bring the number of banks in the country near 6,000 by the end of 2012.

Still, no one at the conference glossed over the challenges the regulatory environment will pose for community banks. Chief among them, Musso said, are plans FASB is moving forward to mark bank balance sheets to market. "I can't even begin to tell you what to do if we go to mark-to-market accounting," he told the audience. He also said regulatory appetite for more uniform business and strategic plans is eliminating niche business plans and would be a major factor in driving consolidation. "[Community banks] are all going to have different geographies but the same balance sheet," Musso said.

Michael Stevens, the senior vice president for regulatory policy with the Conference of State Bank Supervisors, said new capital rules will prove burdensome in the long run for community banks, particularly if regulators move forward with plans to institute counter-cyclical capital planning. Regulators will be demanding higher quality capital and suddenly changing capital rules as they perceive risk building in the financial system, he said, a proposition which could give community banks headaches down the road.

And while complying with the sweeping changes of the Dodd-Frank Act and other international regulatory efforts will certainly prove a huge undertaking for many community banks, not all the rules will immediately be a problem for community banks. Stevens said the new capital rules, while a serious issue in the long term, could actually prove to be a competitive boost for a time after they are implemented. "The first push will be higher levels and higher quality — a slam dunk for you all," Stevens said.

"Community banks should be ... welcoming the rest of the industry to where you've always been. I think in the intermediate term, this is good for you," Stevens said.