

THE ULTIMATE GUIDE TO

Starting a New Bank

Starting a bank often seems like a complicated and almost impossible task. In this day and age, that conception is false. With banking experience and modern technology, anyone with ambition has the opportunity to open a de novo bank, and succeed while doing so.

Read on to learn more about the current state of banking and how to successfully start a de novo bank.

Why Start a Bank?

With multibillion-dollar banking companies, the banking industry is an extremely competitive one. As you know, it is also highly regulated. This has only increased after the recession and housing bubble pop that rocked the industry a decade ago.

But it's important to know that the banking industry looks very different today than it did ten years ago. Companies such as Chime, Aspiration, and Empower are providing significant competition in the online/mobile banking world. The popularity of these competitors points not to the failure of traditional banking—but to the value of alternative de novo banks created by groups who want to build something new.

Creating a de novo bank these days promises to be a more streamlined. It still involves intensive work and patience—approval can come up to eight months after filing the application, with a further three months of pre-filing and preparation—but current conditions for bank startup investment are finally conducive to success.

Government Encouragement of De Novo Banks

The United States government has also done its part to make de novo banking more appealing. In December 2018, the Federal Deposit Insurance Corporation (FDIC) announced new initiatives to streamline the deposit insurance application process. With more transparent processes, the FDIC expects it to be less cumbersome for new banks to open across the country.

The FDIC took the following action in December 2018:

- Issued a request for information seeking comments on how to improve the deposit insurance application process
- Issued an update to its publication entitled "Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions"
- Issued its "Deposit Insurance Applications Procedures Manual" in final form
- Established a process to allow prospective organizers the option to request FDIC review of a draft deposit insurance proposal prior to filing an official application
- Republished its timeframe guidelines for processing deposit insurance applications for de novo banks

Since 1933, the FDIC has maintained that de novo banks are important. The fact that they took significant action to promote the formation of de novo banks provides much of the reassurance investors should need to move forward.

Does the FDIC's support mean it's easier than ever before to start a de novo bank? Possibly, but the process will still be intensive. Applications in 2019 are not approved without meeting strict guidelines and considerations. Executives planning to form banks will need to outline and prove:

- The soundness of the proposed institution's business plan
- The qualifications of the proposed board of directors and senior management
- The adequacy of the proposed capital



WHY ARE

De Novo Banks Important for the U.S. Economy?

- They preserve the vitality of communities and community banking
- They fill important gaps in local banking markets
- They provide credit and depository services to communities that may be overlooked by other financial institutions

How Much Does It Cost to Start a Bank?

To start a de novo bank, you need to build your team, both the Board of Directors and Management. Your board needs to have individuals that are willing to work with and in all areas of the Bank. Your management team needs to have experience in both Banking and Regulations. You also need to have a business plan and at least three (3) years of financial projections that support the business plan. All this information will be submitted, reviewed and approved.

Obtaining capital is particularly crucial to the approval process. It is often the most important—and most challenging—aspect of starting a de novo bank. Attaining capital is highly regulated, and it is common practice for groups starting de novo banks to start raising the capital well in advance of the application process.

If you are starting a bank in the U.S., you and everyone involved with your business will need to pass an FBI background check. You will also need to prove that you have \$20–\$40 million in capital behind your bank.

Costs of starting a bank can vary depending on the specifics of your company, but generally total between \$250,000 and \$1 million. Those planning on starting de novo banks usually collect these moneys associated with startup costs through investment capital. You also have the option of publicly seeking investors for your bank.

How Long Does It Take to Start a Bank?

When you're looking into starting a bank, you need to plan on spending quite a bit of time preparing and filing documents. The amount of time it takes from ideation to opening your doors for the first time commonly takes between a year to eighteen months or more. This depends on how much capital you have raised, your management team, your board of directors and how many people you have on your team to assist with de novo banking applications.





How to Start a De Novo Bank

Here are three steps to starting a de novo bank.

▶ Step 1: Meet FDIC Requirements

In the United States, all new commercial banks must obtain FDIC membership and meet all FDIC requirements. When starting a de novo bank, all groups involved must do the following to apply for FDIC deposit insurance:

- Fill out the [*Application for Deposit Insurance*](#) and the [*Interagency Biographical and Financial Report*](#). This will include the following information about your bank:
 - Mission statement
 - Business plan
 - Financial projections for the next three years
 - Policy descriptions for loans, investments, and other banking operations
- To assist with this use the [*FDIC Deposit Insurance Handbook*](#)

The documentation you must submit is extremely detailed. Typical banking applications often involve hundreds of pages, and can take hundreds of hours to complete. It is often recommended, if you do not have the experience to engage with qualified consultants/attorneys, to ensure all application information is complete and correct.

Once this information is submitted to the FDIC, you might receive notice that your application requires some revisions. Once you've made the revisions and received approval, you are ready to move to the next step.

▶ Step 2: Obtain Bank Charter

If you want to open a new de novo bank you must apply for bank charter with the appropriate overseeing organization. When filling out your bank charter application, you must indicate which one of the following best describes your de novo bank:

- National Charter: Commercial bank with a ***national charter***: The Office of the Comptroller of the Currency (OCC) is an independent bureau within the U.S. Department of the Treasury, which charters, regulates, and supervises nationally chartered banks, as well as federally licensed branches and agencies of foreign banks.
- State Charter: Bank with ***state charters***: Overseen by the banking commissions in their corresponding states.
- Savings bank: Regulated by the ***Office of Thrift Supervisions***.
- Industrial Loan Charter (ILC): An industrial bank is a state chartered depository institution. An ILC has these characteristics they are eligible for FDIC Insurance, exempt from technical definition of a "Bank" for the Banking Holding Company Act of 1956 (BHCA) and are generally subject to the same banking laws, regulations and supervision as other bank charter types. Only seven (7) states offer this type of charter. They are Utah, Nevada, Hawaii, California, Colorado, Minnesota and Indiana. Most ILC's have been chartered by the Utah Department of Financial Institutions.

▶ Step 3: Make the Right Partnerships

Starting a new bank is not an easy task. If you're new to the industry—or simply want to greatly reduce the time you spend on filling out applications and creating capital campaigns—it's important to partner with the right people. At BMA Core Technology, our team has over 30 years of experience working with de novo banks. We can work with your group to ensure you have a solid foundation on which to build your bank.

At BMA, we work hand in hand with both existing and prospective banks to bring them on the forefront of cutting-edge technology. With BMA's core technology platform, we have the capabilities and industry know-how to offer de novo banks innovative and reliable core processing technology. With multiple third-party integrations for debit, loan, and deposit documents as well as ebanking technology, we have the experience to keep your bank successful.

When you partner with BMA, you'll gain an industry partner that is invested in your de novo bank's sustained growth. Contact BMA Core Technology today at [bmabankingsystems.com](https://www.bmabankingsystems.com) to schedule a free introductory call, demonstration, and consultation.