

Press Coverage | September 3, 2024

Where Have All the New Banks Gone?

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James Stevens, co-leader of Troutman Pepper's Financial Services Industry Group, was quoted in the September 3, 2024 *American Banker* article, "[Where Have All the New Banks Gone?](#)"

James Stevens, co-leader of the financial services industry group at law firm Troutman Pepper in Atlanta, is far from convinced regulatory action or inaction lies at the heart of the de novo drought. "The regulators I deal with are open for business," Stevens said. "They encourage new bank formation."

Regulators, Stevens said, calculate a de novo group's capital requirement with a key principle in mind: an institution's need to maintain about an 8% leverage ratio after three years of operations. That means that in addition to that core capital requirement, a de novo must raise enough cash to pay the regulatory and other costs during the startup phase, acquire a building and technology, pay staff and have enough money to weather a year-and-a-half or two of initial losses.

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"I think the challenge for new bank formation is in the ability of these groups to find people that are willing to invest," Stevens, who has helped launch five de novo banks since 2018, said. "It's hard to produce a compelling investment case when somebody can go into the stock market and maybe make more money in the same period of time."

Stevens doesn't deny compliance costs have increased for de novos, but they are up across the board, he said. Regulators "are certainly regulating tougher and stronger as a general matter, and that costs more to comply with," Stevens said. Ultimately, however, the de novo problem boils down to a business case, Stevens argued.

"I don't believe the regulators are working against or opposed to new bank formation. I think it is the people that are forming those banks and their ability to produce an attractive transaction."

There are some reasons for hope. New bank groups that are "true community banks, typically in a smaller town, where you can circle it and say this is the bank for this town," normally see good success raising capital, as do groups that intend to focus on a specific demographic community, such as Asian Americans, Stevens said.

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"That's a good number," Stevens said of the Nova investor base. "It's the kind of capital raise that we need to see if we're going to get new bank formation."

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