

The De novo Process

Table of Contents . . .



1.	De Novo Overview	02
2.	Building the Team, “At-Risk” Capital	11
3.	Choosing a Charter	22
4.	Pre-Application Decisions	34
5.	Application Processing	42
6.	Getting Final Approval, Opening the Doors	59

De Novo Overview

The reasons for starting a de novo bank include . . .

1. Local founder and management group have identified a **business opportunity**.
2. Opportunity to serve a distinct **ethnic or business niche** market.
3. Ability to provide better **service to the community**.
4. **Consolidation** of a market through acquisition.
5. Initial investment of **stock at book value**.
6. Ability to receive **warrants** for at-risk capital (usually 1 warrant for 1 share of equivalent stock).
7. **Low failure rates** compared to other industries.
8. Ability to make a good return on the investment through **stock appreciation**, stock options, warrants, and possible cash dividends in the distant future.
9. Strong **trading and acquisition multiples** with a liquid acquisition market as compared to other industries.

FinPro has learned that the following are the characteristics of a successful de novo institution . . .

1. Compiling a well connected **board or directors/founders group** that has experience in banking or can generate substantial business referrals.
2. Hiring an **experienced management team** that has the ability to multi task.
3. Locating a **market** with positive demographic and competitive characteristics.
4. Finding a **site location** that has local retail draws and is located along major traffic patterns.
5. Focusing on **growth** instead of spread.
6. Constructing a **business plan** that focuses the Bank on building shareholder value.
7. Raising the appropriate level of **capital**.
 - Raising too much capital at the start of business limits stock appreciation.
 - Raising too little capital will limit the Bank’s ability to grow and retain the correct management team and infrastructure.
8. **Pricing products** with flexibility – not saddled with a current deposit or loan base.
9. Embracing **new technology** – remote data capture, new ATMs, internet banking.
10. Managing the **timeline** to limit excess use of at-risk capital – usually 9 to 12 months.

Top issues facing new de novo banks . . .

1. Recent “shadow moratorium” on de novo banks (while this appears to be coming to an end, de novo banks will continue to face tougher regulatory scrutiny).
2. Finding qualified chief executive officer and chief lending officer
3. Obtaining top locations
4. Differentiating from competition
5. Overcoming customer inertia
6. Higher levels of regulatory scrutiny for a longer period of time.
7. Overcoming difficult capital raising environment and higher capital hurdles for starting a de novo.
8. Overcoming economic conditions.

As a result, business plans are becoming more detailed and complex

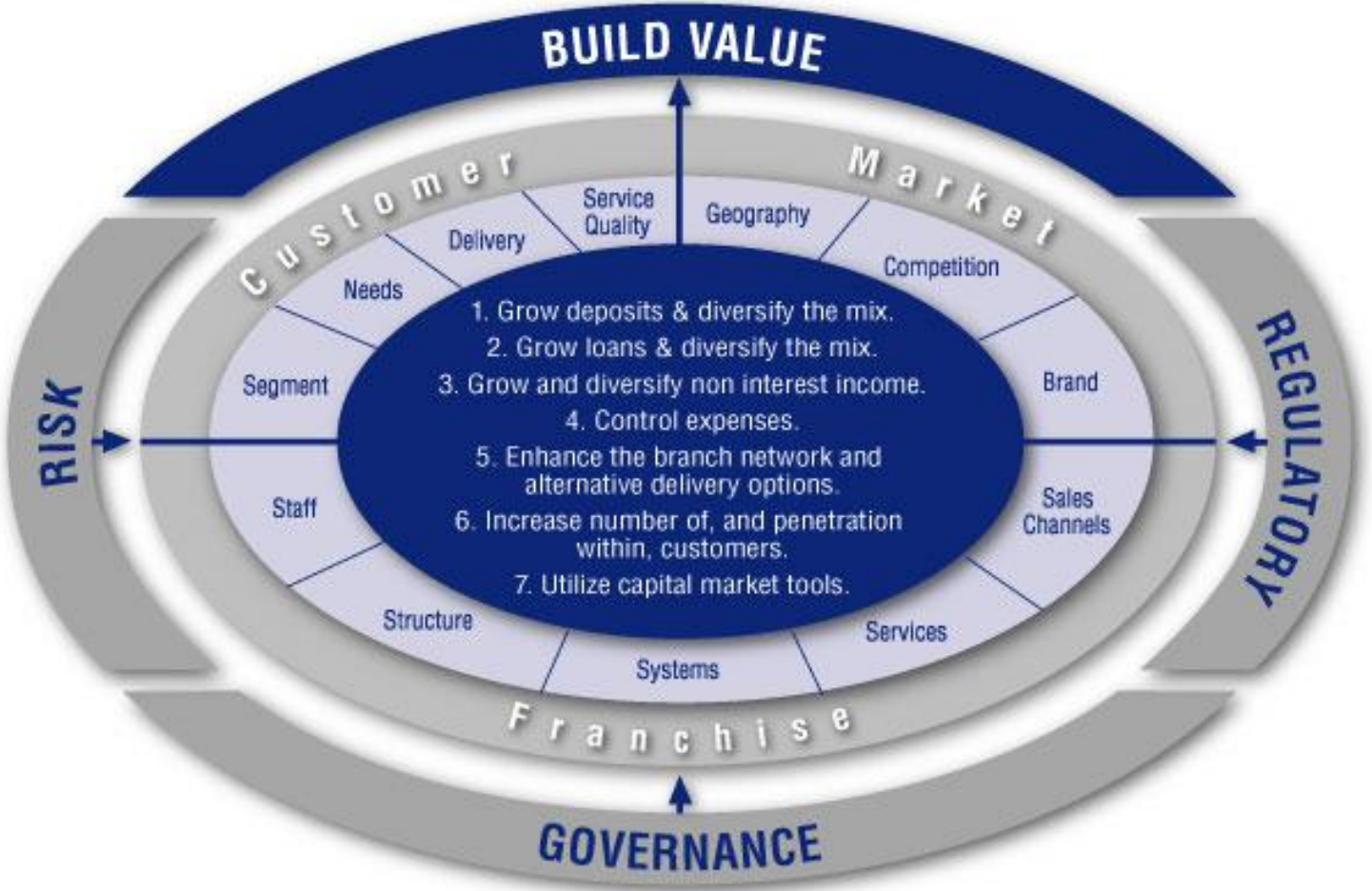
Some things that DO NOT work for de novo institutions include . . .

- Selling board seats
- Lack of community involvement in the offering
- Not diversifying the product offering
- Limited Board participation in business development
- Focusing on spread over growth
- Opening in small markets with limited growth potential
- Board and management conflict

Who is FinPro? . . .

- FinPro is a national leader in forming de novo banks.
- FinPro's experts advise the regulators on de novo banking.
- Often quoted as market experts on de novo banking.
- FinPro's experience extends to roles as Board Members and Founders.
- Unparalleled regulatory knowledge.
- An investor database for our clients to utilize.
- Consulted for some of the best performing de novo banks, including Nittany Bank, Bayonne Community Bank, and North Jersey Community Bank.

FinPro's seven ways to building value . . .

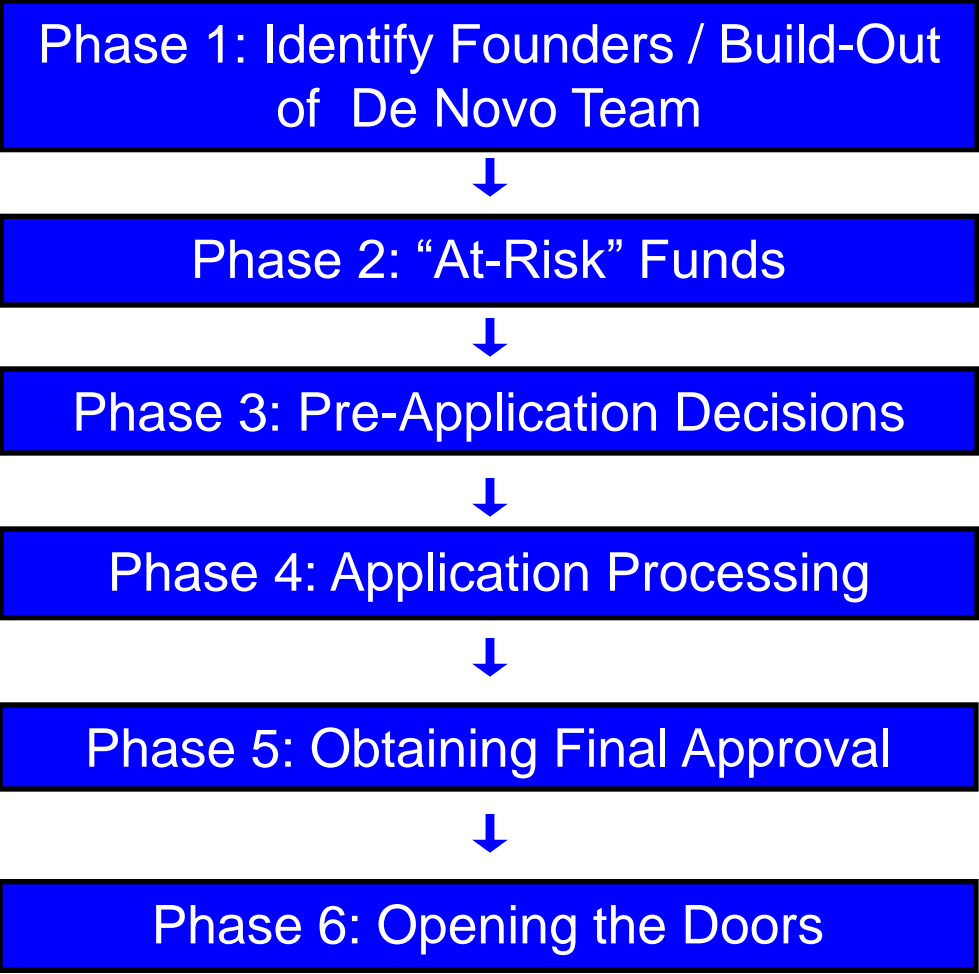


FinPro's approach . . .

- FinPro provides a market assessment to determine if the prospective area and base assumptions are feasible.
- FinPro will also evaluate the founder group.

and then we commit.

The de novo process includes six phases . . .



Phases 1 - 2: Building the De Novo Team, “At-Risk” Capital

Phase 1 of the de novo charter process includes identifying your founders group . . .



<u>Major Tasks</u>	<u>Timeline</u>	<u>Phase</u>
1 Identify Founders Group	Month 1	Phase 1
2 Sign Consulting Company Proposal	Month 1	

Initiating the De novo Team . . .

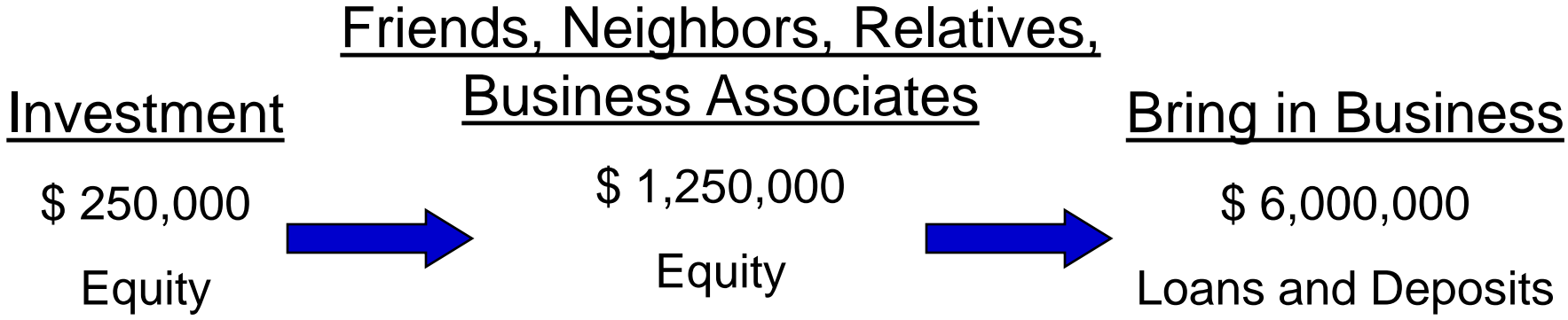
- Founders
- Market Feasibility / Planner – site selection, market justification and feasibility, business plan, pro forma statements, process guidance, sample forms, and policy formation

To reach opening day, a de novo must have a strong group of experienced founders with a clear vision and a feasible plan that is ready to execute.

The founders/incorporators of the de novo bank must be able to answer to the following issues . . .

- Definition of the purpose of the de novo institution.
- How will the institution benefit the community(ies) to be served?
- Who was responsible for getting the incorporators together?
- Why were the founders/incorporators chosen and what will each individual contribute to the institution?
- Are the founders U.S. citizens?
- Are the founders in agreement about the mission of the proposed institution?
- How many of the founders are to be directors?
 - Directors need to dedicate two to three full days per month towards the bank.
- Will there be any transactions with affiliates during the formation stage and after establishment? What is the nature of relationships?
- How much capital will each founder supply – individually and collectively?

Founders' responsibility . . .



The responsibilities of Founders, Board Members, and Investors vary . . .




Founders
<ul style="list-style-type: none">▪ Biographical Report▪ Financial Report▪ Fingerprints

Board Members
<ul style="list-style-type: none">▪ Biographical Report▪ Financial Report▪ Fingerprints▪ Interviewed▪ Fiduciary Risk

Investors
<ul style="list-style-type: none">▪ No Personal Information▪ No Liability

The Founders are responsible for the following . . .

- 
- Filling out their biographical and financial forms.
 - Getting fingerprinted
 - Committing “at-risk” funds that will be used for organizational expenses during the charter process. Founders are rewarded for their contribution to the at-risk capital.
 - Selecting the Board of Directors (typically from the Founders Group)
 - Hiring CEO
 - Selecting location of Bank
 - Bringing in capital commitments from friends, neighbors, relatives, and business associates.
- } Cannot file without these items

Founders typically sit on the bank's Board of Directors, but it is not mandatory. The optimal Board of Directors includes . . .

- Local community leaders
- Local business leaders
- Professionals with areas of expertise
 - Real estate brokers
 - Lessors of the facility
 - Sellers of equipment
 - Legal counsel
 - Marketing and advertising
 - Consultants
 - Appraisers
 - Stock underwriters

Continued . . .



- One person must serve as a “financial expert” on the Board.
- The de novo must list any relationships and associates with which it has any business involvement or arrangement.
- The Board of Directors must be prepared to actively participate in the affairs of the Bank, including all aspects of the regulatory process. Regulators do not want to see a “rubber stamp” board.
- The Board of Directors should all share the same vision for the Bank. The Board should be united, not split in factions!

Phase 2 includes raising “at-risk” funds and hiring a CEO . . .



<u>Major Tasks</u>	<u>Timeline</u>	<u>Phase</u>
3 Identify CEO	Month 1	Phase 2
4 Formulate High Level Business Strategy	Month 1	
5 Build powerpoint presentation for investors	Month 1	
6 Establish LLC or in-organization company	Month 1	
7 Raise At-Risk Money: Warrants will be issued for at-risk funds	Month 1 - Month 3	

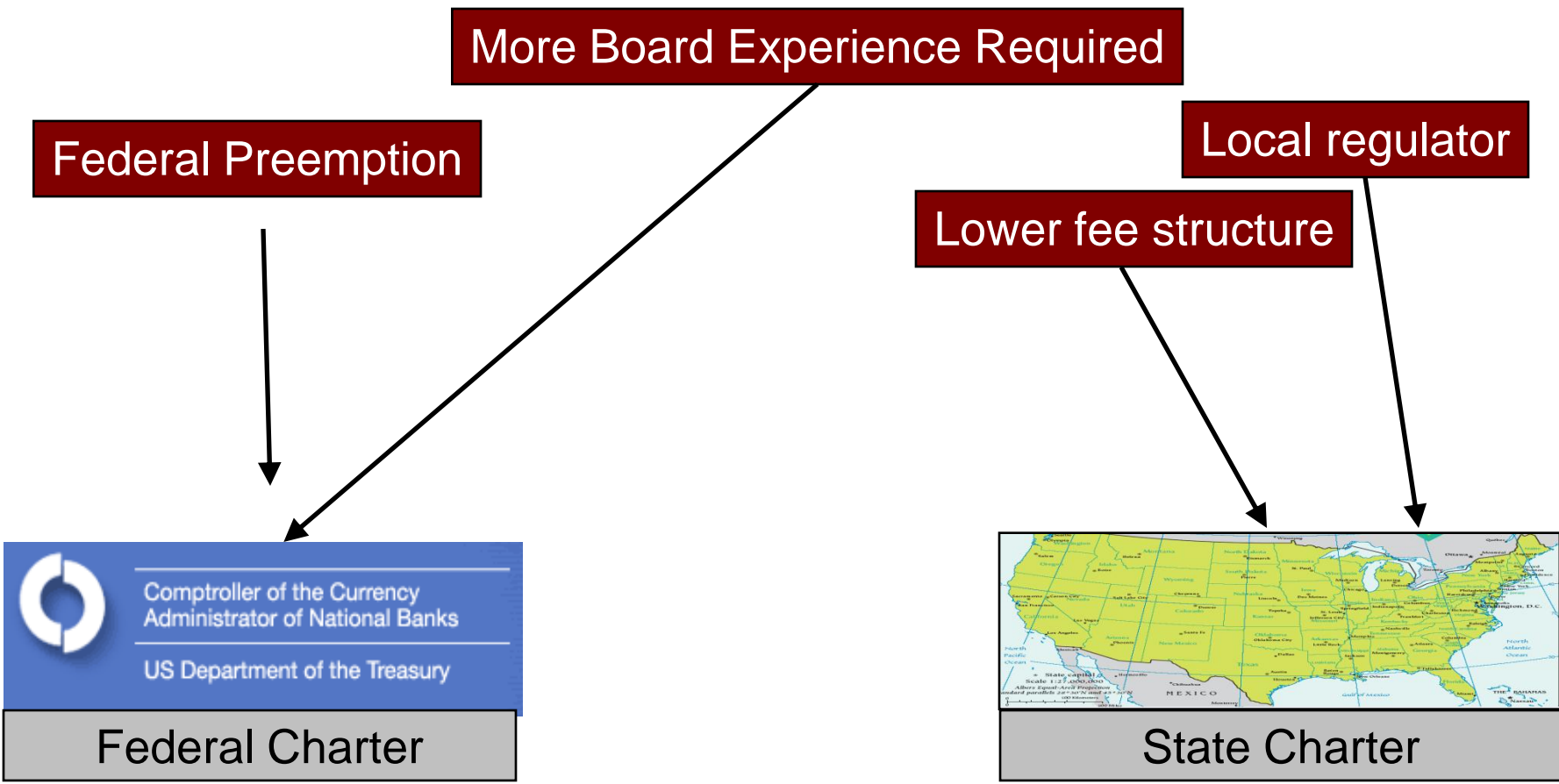
Hiring of “C-level” officers begins with the President / CEO . . .

- Should have prior banking experience, preferably in a wide array of functional areas.
- Salaries range up to \$175,000 to \$250,000.
- Does the CEO have any de novo experience?
- Can the CEO demonstrate the ability to run a bank? Can the CEO run a small start-up bank?
- Should have a working knowledge of the primary market to be served by the de novo.
- Should own a significant equity interest in the de novo.

The founders must determine whether or not to give the President/CEO a contract and should ascertain compensation levels for both pre-opening and post-opening.

Charter

There is uncertainty regarding regulators and financial regulatory reform, but based upon the existing regulatory structure, examples of charter selection issues per regulatory agency are . . .



Other issues . . .



Capitalization

Dodd-Frank

Application Process


Ownership Concentration

Past experience and relationships

Desire for new charters

Extended De Novo Period

Nontraditional Business Strategies



Comptroller of the Currency
Administrator of National Banks
US Department of the Treasury

Federal Charter



State Charter

The choice of a charter for a de novo bank is accompanied by the choice of whether or not to create a Bank Holding Company (“BHC”). Advantages of a holding company include . . .

- Corporate structure that makes offering non-bank products and services easier
- Expanded ability to raise capital
 - Can borrow at the holding company level and downstream to bank as capital
 - Can issue trust preferred stock
- Acquisition of other banks
- Ability to issue stock with the legal authority to repurchase
- Riskier subsidiaries can be kept separate of the bank as independent subsidiaries

Disadvantages to establish a holding company include . . .

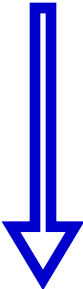


- Additional regulation
- Expenses from taking on extra administration
- Bank holding companies may also face additional taxes separate from those at the bank

Charters . . .



Holding Company



Bank

Regulatory Oversight

- Federal Reserve Board

- OCC
 - FDIC
 - Fed
- } FDIC Insurance

Based on current regulatory framework, OCC charter . . .

- National banks must pay a \$25,000 filing fee.
- Currently no restrictions on the asset mix of a national bank.
- May branch interstate but are subject to interstate branching laws, which vary from state to state.
- They may set up a LPO with federal preemption.
- OCC chartered banks are required to own a minimum of 50% of their subsidiaries, and there is no maximum investment limitation.
- There is no specific liquidity requirement.

Advantages and disadvantages of the OCC charter . . .



- Advantages
 - OCC charters are given federal preemption over state laws in all operating aspects except interstate branching.
- Disadvantages
 - Interstate branching is subject to state reciprocity laws.
 - The fee structure of the OCC caters heavily to larger banks.
 - A minimum of 50% ownership of operating subsidiaries is required.
 - Industry sentiment is that it is harder to work with in certain regions, especially for smaller banks.

Based on current regulatory framework, State banking charter . . .

- State charters face dual regulation from the FDIC as well as state regulators.
- States are subject to state and federal laws, with no federal preemption.
- Filing fees vary by state, as do the assessment timetables and fees, but generally state fee structures will be cheaper than at the OCC.
- Some states have their own application that they require in addition to the interagency application.
- Loan limitations are generally the same but vary from state to state, some allowing for higher loan amount than federal regulators.
- There are unique rules regarding timing and origination of capital that vary by state.
- Subject to interstate branching laws, which vary from state to state.
- May establish an LPO across state lines.
- Assessment fees are paid to the chartering state, none are required to the Federal Reserve or FDIC.

Continued . . .

- State de novo banks do not have restrictions on the asset mix and are not held to a specific liquidity requirement.
- Operating subsidiaries are limited to what the Bank may do, and investment limitations vary by state.

Advantages and disadvantages of a state banking charter . . .



- Advantages
 - State banks have often been allowed to experiment with relative ease in creating new products, although the ideas that are worthwhile are eventually adopted by banks with other charters.
 - State banks have local regulators, which can foster a more accommodating professional relationship than the other agencies which deal on a regional or national scale.
- Disadvantages
 - Ownership level restrictions.
 - Dual regulators.
 - Interstate branching is subject to state reciprocity laws.
 - No federal preemption.

Similarities between charters include . . .

- Assuming everything is done correctly, the process for obtaining a charter should take between twelve and fifteen months.
- During the first seven years, the de novo must maintain an 8% Tier I (Core) Capital ratio as well as a 10% Total Risk-Based Capital ratio.

Phase 3: Pre-Application Decisions

An operational decision de novo banks must make is whether to file as a C corporation or a Subchapter S corporation for Federal income tax purposes . . .

- C Corporations face taxes on the corporate level. Subchapter S Corporations are able to avoid that taxation and only face individual shareholder taxes.
- The benefit of the Subchapter S corporation is the ease in avoiding double taxation, but there are specific requirements a corporation must meet and maintain.

The requirements for a Subchapter S Corporation . . .

- Subchapter S of the Internal Revenue Code defines S corporations as:
 - Domestic corporation
 - It has no more than 100 shareholders. Members of a family may be treated as one shareholder* upon their election. All other persons are treated as separate shareholders.
 - Does not have shareholders other than individuals, estate, certain trusts, or certain exempt organizations. Corporations, LLCs, or partnerships are not permissible.
 - Does not have a nonresident alien as a shareholder
 - It has only one class of stock (disregarding differences in voting rights).
 - It has a permitted tax year as required by section 1378 or makes a section 444 election to have a tax year other than a permitted tax year. Section 1378 defines a permitted tax year as a tax year ending December 31, or any other tax year for which the corporation establishes a business purpose to the satisfaction of the IRS. See Part II for details on requesting a fiscal tax year based on a business purpose or on making a section 444 election.
 - Each shareholder must consent to S election.

Continued . . .

- Subchapter S elections are completed by filing IRS Form 2553, Election By a Small Business Corporation (Needs all shareholders consent by the 15th day of the third month of the election year). The election permits the income of the S corporation to be taxed to the shareholders of the corporation rather than to the corporation itself.

The specific tax treatment of the Subchapter S Corporation . . .



- When Subchapter S election is complete, the corporation is basically viewed as a “pass-through” entity for income tax purposes
 - All of the profits and losses of the company will be passed onto the individual tax returns of the shareholders in proportion to their ownership
 - Avoids being taxed twice on distributions of profit (cash dividends)
 - Shareholders are taxed on earnings regarding distribution payments. Therefore most Subchapter S corporations payout substantially all of their earnings to offset tax liability.

C Corporations are formal business entities that are allowed to retain profits . . .



- Often profits will be taxed at a lower rate than personal income.
- Payouts of corporate profit through dividends can result in double taxation.
- C Corporations have greater tax reporting responsibilities than an S Corporation.

Phase 3 includes locating a feasible site to open a bank branch and completing the De novo Team . . .

8 Consulting Company's First Payment	Month 1	Phase 3
9 Retain Legal Counsel	Month 1	
10 Build powerpoint presentation for regulators and investors	Month 1	
11 Introduction Meeting with Regulators (If Necessary)	Month 1	
12 Conduct Market Ranking	Month 2	
13 Locate Site	Month 2 - 3	
14 Conduct Market Feasibility Study	Month 3 - 4	
15 Build business plan and model Bank's financial projections	Month 3 - 4	
16 Finalize Founders Group	Month 3 - 4	
17 Preliminary Filing Meeting with Regulators	Month 3 - 4	
18 Obtain financial statements, background data, and fingerprint cards	Month 3 - 4	
19 Draft Regulatory Application	Month 3 - 4	
20 File Application	Month 3 - 4	

Completing the De novo Team . . .

- Legal Counsel – compile application, certificate of incorporation, bylaws, legal notices, contract negotiations, red herring, prospectus, blue sky filings, etc.

Once the De novo Team (Founders, CEO, Planner, Legal Counsel) is complete, it should meet regularly, within a minimum of bi-monthly meetings. The external team members should have de novo experience.

Phase 4: Application Processing

During processing of the application the following areas can be addressed . . .

21	Select Auditing Firm	Month 4 - 6
22	Build Policies and Procedures	Month 4 - 6
23	Create O.C. or PPM for capital raise	Month 4 - 6
24	Select Data Processing Firm	Month 4 - 6
25	Select Internal and External Vendors	Month 4 - 6
26	Raise capital	Month 6 - 9
27	Build out branch and main office facility	Month 6 - 9
28	Hire CFO and CLO	Month 6 - 9
29	Hold Regulatory Hearing with Regulator (If Necessary)	Month 6 - 9
30	Receive Contingent Approval from Regulators	Month 9 - 12
31	Put operations in place	Month 9 - 12


Phase 4

List of Policies . . .

- General Policies
 - General Policy Statement
 - Right to Financial Privacy
 - Bank Bribery
 - Preservation of Consumer’s Claims and Defenses
 - Home Ownership Counseling Policy
 - Compliance Policy & Compliance Officer
 - Community Reinvestment Act Policy
 - Fair Housing Policy
 - Home Mortgage Disclosure Act
 - Branch Closing Policy
 - Asset Liability Management Policy
 - The Federal Reserve Board’s Reg. F Interbank Liabilities
 - Interest on Deposit Policy
 - Regulation E. Electronic Funds Transfer Act
 - Electronic Funds Transfer Policy
 - Availability of Funds
 - Internal Audit Policy
 - Savings Deposit Policy
 - Accounting Proofs
- Loan Policy should include:
 - Regulatory Compliance
 - Nondiscrimination in Lending
 - Loans to Affiliated Parties
 - Legal Lending Limit
 - Flood Insurance
 - Credit Approvals and Lending Authority
 - Loan Proposals
 - Credit Considerations
 - Fair Credit Reporting Policy
 - General Underwriting Guidelines
 - Environmental Policy
 - Loan Files and Documentation
 - Appraisals
 - Inspections
 - Nonresidential Loans
 - Consumer Loans
 - Home Equity Loans
 - Credit and Charge Cards
 - Consumer Leasing
 - Real Estate Loans

Capital

When capitalizing the Bank, the founders, in conjunction with legal counsel and appropriate consultants, have to determine . . .

- 
- What is the amount of capital that can be raised?
 - What is the optimal amount of capital that should be raised?
 - Will the capitalization efforts require the use of an underwriter?
 - Will capital be raised before receipt of a charter and approval of deposit insurance?
 - If so, production of a “red herring” is required, and a non-binding expression of interest in the stock issuance needs to be obtained from each potential shareholder.
 - A list of the potential shareholders should be maintained and each founder should prepare a list of potential investors to be contacted.

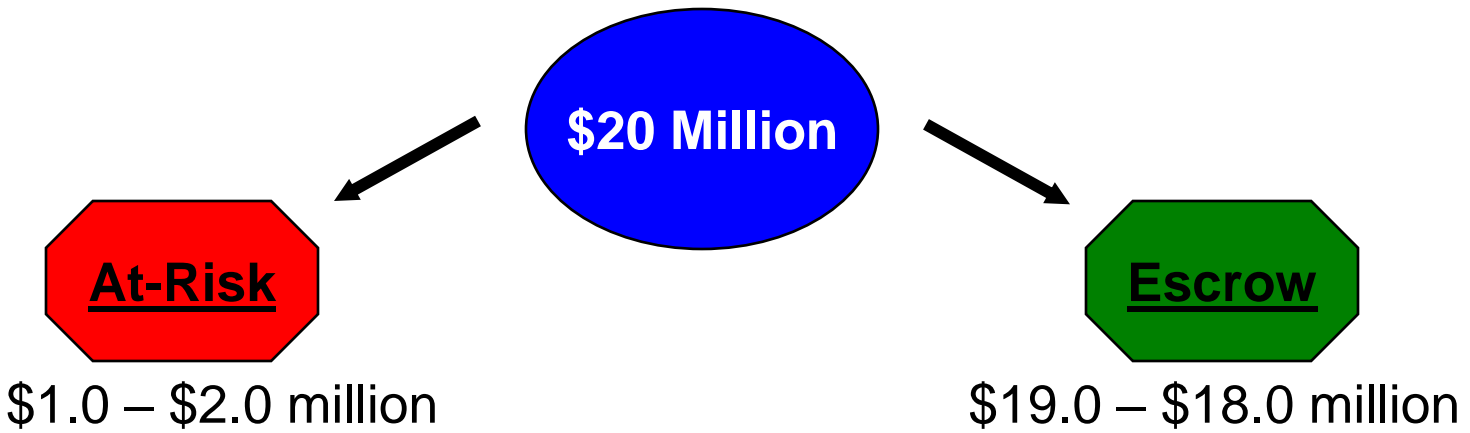
In conjunction with the initial offering, the following need to be considered . . .

- Stock subscription forms.
- Offering circulars.
- Minimum subscription shares.
- Minimum percentage of initial shares offered that the founders/incorporators are comfortable to have “control.”
- Maximum amount of shares to an individual or associate.
- Blue sky issues.
- Acceptance of subscriptions from “professionals” or other financial institutions.

How much capital should you raise?



- Raise \$20.0 – 30.0 million in capital (more if business plan demands it.)



- All classes are treated and priced the same.

At-risk funds . . .

- At-risk funds are necessary to fund the organizational expenses and capital expenditures during the pre-opening phase of the de novo process.
- At-risk funds are considered investments in the Bank and are awarded stock once the Bank is in operation.
- The amount of at-risk funding is limited to a reasonable range of the projected organizational expenses from the business plan.
- The Founders may also borrow at-risk funds through a line of credit at a corresponding bank. However, this loan must be guaranteed by the Founders.
- Founders who put up at risk funds will receive warrants. For every issue of the bank's stock, the founder is given a warrant (usually on a 1:1 ratio). The warrant, much like a stock option, is a future option to buy the bank's stock at the present price.

A de novo bank is subject to higher capital restrictions by the regulators for the first seven years of operation . . .



- A de novo bank must adhere to the 8.0% Tier 1 capital requirement as well as the 10% Total Risk-Based Capital requirement.
- For example, assuming a \$20.0 million capital raise and a \$2.0 million initial loss, the bank can grow to \$225.0 million in assets.

		(\$ in thousands)
Initial Equity Capital	\$	20,000
Initial Operating Loss		(2,000)
Remaining Capital		18,000
Capital Ratio		8.00%
Total Assets		225,000

If the bank outgrows its initial capital before the first seven years of operation, the bank should consider conducting a secondary stock offering . . .

- If possible, the secondary capital raise should be at a higher price than the initial \$10 share price and immediately accretive to original shareholders.
 - Currently, the capital markets have made this difficult, if not impossible.
- If the Bank raises an additional \$5.0 million at \$12.00 per share, the initial shareholders see an automatic 5.75% appreciation in price and tangible book value per share.

	Shares	Equity	TBVS	Price	P/TB
Initial Common Stock	2,000	\$ 20,000	\$ 10.00	\$ 10.00	100%
Initial Operating Loss		(2,000)			
Capital at Secondary Offering	2,000	\$ 18,000	\$ 9.00	\$ 11.35	126%
Secondary Offering	417	\$ 5,000	\$ 12.00		
Pro forma	2,417	\$ 23,000	\$ 9.52	\$ 12.00	126%
Percent Increase			5.75%	5.75%	

Public or Private Stock Offering?

Public Offering (Offering Circular)

- Broader subscription base
- Federal registration
- Need regulatory approval
- Less flexibility

Private Offering (PPM)

- Accredited investors only
- Exempt from federal registration
- No regulatory approval needed
- More Flexibility
- Sale of stock restrictions
- Less expensive

Conduct secondary offering around strategic plan . . .

- If the Bank plans on opening a de novo branch in a new market, solicit funds for the offering from the key people in that area.
- Having local investors will help the branch grow and reach profitability quicker.

Option Plans . . .



- De novo bank applications typically include option plans that range between 10%-15%. Option plans greater than 15% will have difficulty getting regulatory approval.
- Options are typically awarded to board members and key executives. The Bank typically keeps options shares in reserve to attract employees and award existing employee performance. The percentage breakout of options is determined by the Board.
- Options expense will flow through the income statement but it will not impact capital.

Execution of the following items during the process of the application is critical to the Bank opening in a timely manner . . .

- Due to the small size of a de novo bank, most of the core processing and back office functions will be outsourced to vendors to save money.
- The following external processes should be selected:
 - Internal and External Audit Firm
 - Electronic Data Processing and Core Processing
 - Loan review
 - Compliance
 - Security Systems

Policies & Procedures . . .

- A complete set of policies and procedures should be developed and approved by the Board of Directors prior to commencement of operations to describe “the way we do things around here,” to enhance the system of internal controls of the de novo institution and to provide guidance for employees.
- The Board of Directors must adopt an Ethics Policy for Directors and Officers. The policy and any associated procedures and guidelines should include plans for avoidance of conflict of interest and usurpation of corporate opportunity.
- The FDIC insurance application requires that polices be adopted and provided as part of the application process for security and Bank Secrecy Act (BSA) compliance in accordance with Part 326 of the FDIC Rules and Regulations, “Minimum Security Devices and Procedures and Bank Secrecy Act Compliance.”
- In addition to mandated polices for security devices and BSA compliance, the de novo institution should adopt and implement general policies and procedures as well as policies and procedures related to lending. Listed below are areas that should be included. FinPro, Inc. can provide guidance in the development of the policies.

In hiring for both the CFO and CLO positions, the following items should be taken into consideration . . .

- Does the CFO have community banking experience?
 - A de novo bank CFO needs to be able to multi-task and handle tasks that big bank CFOs may not be accustomed to providing.
- Does the CFO have BSA experience?
 - Each banking institution must designate a BSA Officer. The CFO can also serve in this role if experienced.
- Does the CFO have investment experience?
 - If not, the Bank may want to partner with a consulting firm who can manage the Bank's investment portfolio.
- Does the CLO have an existing book of business and does it match the strategy of the Bank?
 - Hiring CLOs with an existing book of business is optimal but the Bank may need to pay a premium for this person. A residential mortgage lender would not be an optimal CLO for a commercial bank.

Build out branch and main office facility . . .

- Design of facility should match with Bank's overall strategic plan. For example, if going after the high wealth market, the branch needs to be built with high end materials and be specifically tailored to provide personalized service.
- Drive-thru ATM facilities are optimal, followed by walk-up ATMs. Vestibule ATMs tend to be the least attractive option.

Phases 5 - 6: Final Approval and Opening the Doors

Once the Bank receives regulatory approval, Phase 5 will prepare the Bank for opening its doors . . .



32 Get Regulatory Final Approval	Month 9 - 12	Phase 5
33 Hire remaining bank staff	Month 9 - 12	
34 Train Bank staff	Month 9 - 12	
35 Preopening marketing program	Month 9 - 12	
36 Audit Firm signs off on existing financial statements	Month 9 - 12	
37 Release funds from Escrow account for Bank's capitalization	Month 9 - 12	

Phase 6 begins once the Bank opens its doors for operations and includes moving investor deposit accounts to the Bank and holding a Grand Opening to the public . . .



38 Bank opens its doors	Month 12 - 15	Phase 6
39 Move participated loans into the Bank	Month 12 - 15	
40 Move investor deposit accounts into the Bank	Month 12 - 15	
41 Hold Grand Opening	Month 12 - 15	

Potential Obstacles

Some early warning signs of difficulties or problems in a de novo bank . . .

- Inability to meet growth and profitability projections in the application business plan
- Management turnover or turmoil during the early years of the institution
- Board conflict
- Inability to leverage initial capital raise
- High and out-of-line expense ratios for a de novo
- Inappropriate staffing levels, may be either overstaffed or understaffed
- Lack of board involvement, “rubber stamping” of management decisions
- Egregious affiliated transactions and insider transactions
- Lack of penetration into shareholder base for loan and deposit customers

Characteristics of business plans which appear to cause the greatest challenges from the regulators . . .

- Insufficient capital
- Rapid growth
- Affiliations with another business for which the de novo appears to be a source for low cost funds or primary recipient of assets generated:
 - Mortgage banks
 - Real Estate development
- Mono-line business plans
- Business plans that are too broad – all things to all customer groups
- Internet based strategies
- Loan concentrations
- Utilization of wholesale funding such as brokered deposits or borrowings

If a de novo bank significantly exceeds or fails to meet its size and/or financial performance targets after opening, we should keep in mind that . . .

- By nature a start-up contains elements of uncertainty
- Approval should span the projections for the minimum and maximum capital scenarios
- If there is a material deviation from the business plan, an updated business plan must be submitted to and approved by the regulators before the start-up does anything of material deviation from the plan.
- Exams should not be focused on absolute numbers but strategy execution
- Financial results are subject to market dynamics and implementation issues

Final Thoughts

Thoughts on the timing, frequency, and scope of regulatory examinations . . .

- “Visitations” a couple of times during the first year to check things out.
- First exam toward end of year 1 or early in year 2. Ensures that the de novo is following rules and regulations and that they develop a good working relationship with the regulators.
- Annual examinations will continue through the first seven years.
- There should be more coordination between different agencies in the examinations and visitation schedules
 - Regulatory reviews demand management’s time and effort away from business execution

Typical issues during the application process which add little or no value, require unnecessary duplication, or could be streamlined . . .

- Things that add little or no value
 - Alternative business plans
- Things that require unnecessary duplication
 - Many questions in interagency application are duplicative in business plan
 - Answer to many application questions is “See business plan Section X”
- Things to streamline
 - Flexibility on forms used with Biographical and Financial Reports (BioFins)
 - Tax returns or audited financials
 - Brokerage statement

What are the trends in de novo bank business plans . . .



- Multiple scenarios
- Higher initial capitalization
- Detailed explanation of growth and branch expansion

The secret stuff . . .

- Grow, grow, grow – worry about spread later
- Make sure everyone--directors, officers, tellers and shareholders--acts as salespeople for the bank
- Incentivize people to perform
- Pay up to hire the best
- Lock up key employees with employee agreements that include a non competes
- Relationship and service trump price
- Customers bank where they are comfortable and gravitate toward an organization that KNOWS their specific needs
- Brand your organization – do not allow it to be branded by the market