The next breed of financial services startup just might be banks

Dozens of hopefuls are lining up for new bank charters. Some metro areas like D.C. have as many as four, including Shaza Andersen’s Trustar Bank and Mindi McClure’s VisionBank
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Briefings

4 Now for the Name Game
BB&T and SunTrust have no choice but to think up a new identity, marketing experts say. But good luck with that.

6 A Watershed Moment at Walmart
By offering its customers point-of-sale loans, the nation’s largest retailer is embracing a financing option that facilitates big-ticket purchases without a credit card.

BankTechnology

8 Lenders Without Border Walls
Some fintechs are providing international students and immigrants with credit cards and loans. Machine learning makes the underwriting possible.

10 Developing Them Young
Initiatives like the Utah Refugee Education and Training Center are helping banks and fintechs counter a dearth of tech talent.

12 Save for a Rainy (Wedding?) Day
Fifth Third wants to help consumers — and millennials in particular — save up for big purchases without them needing to think about it. The app Dobot is free for anyone to use, even those who bank elsewhere.

Metrics & Measures

13 M&A Adviser Ranking
Top advisers on bank and branch deals for 2018, by region.

BankThink

20 Don’t Make Such a Big a Deal Out of It
The merger of BB&T and SunTrust is no cause for alarm, Thomas Vartanian writes.

BackPorch

24 Quotes from former Fed chair Janet Yellen, Bank of America’s Anne Finucane, and more.

Cover Story

14 Ready for Business
After a decade with few new bank formations, dozens of hopefuls are lining up, in response to encouragement from regulators. Some metro areas like D.C. have as many as four in the works — including Shaza Andersen’s Trustar Bank and Mindi McClure’s VisionBank.

Contents
What’s going on @
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Is this Swift’s answer to Ripple?

Swift is showing more swagger in its rivalry with Ripple thanks to progress it has made with a multifaceted payments-tracking technology called GPI, for global payments innovation. It says GPI will neutralize the competitive threat posed by Ripple and others and that its bankers are happy with the speed and insight GPI gives them.

BB&T-SunTrust: 3 big questions

Why now? Will it work? How will their rivals respond? The megadeal between the two East Coast regionals offers up plenty of grist for speculation. “BB&T is an excellent partner when it comes to ‘all cards on the table’ with respect to the important social issues,” Chris Marinac at FIG Partners wrote in his note to clients.

SOURCEMEDIA

Vital statistics on Swift’s payment-tracking software:

- **$300B**: Daily payment settlement volume
- **450**: Number of banks that use it
- **42 93 27**: Share of international payments
- **34 28 72**: Share of payments credited in 30 minutes
- **82 55 20**: Share of payments credited in 5 minutes
- **40%**: Share of payments credited in 5 minutes

Source: Swift

The book on GPI

Source: Swift

GPI gives them speed and insight that its bankers are happy with the threat posed by Ripple and others and GPI will neutralize the competitive rivalry with Ripple thanks to progress it has made with a multifaceted payments-tracking technology called GPI, for global payments innovation. It says GPI will neutralize the competitive threat posed by Ripple and others and that its bankers are happy with the speed and insight GPI gives them.
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Big Merger, Big Branding Decision

BB&T and SunTrust want to create a new identity for what will become the sixth-largest bank in the country. But choosing a name is a challenge.

By Laura Alix

Picking a new name for a merged company is tricky.
“FleetBoston Financial,” formed in one of those late-‘90s megamergers, was the kind of crammed-together name that often doesn’t roll off the tongue. And who can ever remember where the capital letters go in PricewaterhouseCoopers, much less PwC?

The wholly new brand “Verizon” worked in telecom — few recall there ever was a Bell Atlantic, GTE or NYNEX. But made-up names can come off as forced, as in Woolworth’s short-lived switch to Venator.

So, what should the merger partners of the hour — BB&T and SunTrust Banks — do?

BB&T is the acquirer, yet its name is, well, a bit clunky. And the two sides have labored hard to present their $28.2 billion deal as a merger of equals.

The banks’ leaders said they intend to create a new identity, but surely it would be tempting to just keep the SunTrust name: It’s a real word (or two), and in a deal where cost savings are a primary rationale, you’d have fewer branch signs, letterheads and stadium signs to change.

But the two East Coast regionals, who have a combined $442 billion of assets, have no choice but to dream up a new identity, several branding and marketing experts say.

“To keep one name over the other doesn’t really scream ‘merger of equals,’ and it just amplifies the opportunity for employee dissonance,” said Steven Reider, president of the marketing and branch planning adviser Bancography.

“This is a transformative merger. It’s doubling the scope of the institution and becomes the sixth-largest bank in the U.S. by asset size when all this is finished. … A new name backs that up, to say this is a different entity.”

In making the choice, there will be a lot to consider. People trust banks with their money and sensitive data, so a new name needs to convey a certain sense of seriousness and trustworthiness. Not only that, it should also be easy to spell, easy to pronounce and easy to remember.

Marketing and branding agencies consider everything from the way a name will look on a sign versus a business card to the shape of its letters.

And there’s also the matter of availability in the first place.

“The biggest challenge is simply in the amount of registered brands that exist today and finding one that is available,” said Gina Bleedorn, chief experience officer at the Atlanta-based marketing agency Adrenaline.

It is for that reason that many brands, especially financial services companies, make up a new word for their new name, said John Mathes, director of brand strategy at Weber Marketing in Seattle.

One example is the now $45 billion-asset Synovus in Columbus, Ga. Previously known as Columbus Bank & Trust, the bank holding company changed its name to Synovus in 1989, combining the words synergy and novus (Latin for new). At the time, Synovus connected its rebranding to its diversified services and the growth it anticipated. It retained its local bank names and charters for a while afterward, ultimately consolidating the charters in 2010 and finally rebranding every branch last year.

On the other hand, occasionally brands use real words and have positive connotations, such as Ally Bank, for example.

Formerly GMAC Bank, the company used to be General Motors’ auto financing division. It rebranded as Ally after it was spun off from GM in 2006. The new name and brand helped to establish Ally as an independent entity, but just...
new name needs to convey a certain sense of seriousness and trustworthiness. Not only that, it should also be easy to spell, easy to pronounce and easy to remember.

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On the other hand, lenders are occasionally lucky enough to find a name that uses real words and has positive connotations. Mathes gave the example of Ally Bank.

Formerly GMAC Bank, the company used to be General Motors’ auto financing division. It rebranded as Ally after it was spun off from GM in 2006. The new name and brand helped to establish Ally as an independent entity, but just as important, put distance between the bank and the then-bankrupt carmaker.

“What a great name. They were so fortunate to find a real word that has a great meaning in banking, to have an ally on your side,” Mathes said. “They got a good one there. That does happen, but most common words are already taken.”

Regardless of the challenges inherent to the process, marketers say the new name offers a chance for the combined company to reinvent its image. That can be something of a double-edged sword, according to Roger Beahm, a professor of marketing at Wake Forest University in Winston-Salem, N.C.

“Anytime you give your customers an excuse to rethink their loyalty, that creates an issue. As marketers, we don’t like to do that,” he said. “On the other hand, the merger creates an awareness that there’s going to be an even larger company to provide greater service in some respect that’s important to me. You can capitalize on it as well as defend against loss.”

SunTrust declined to comment for this story, and BB&T did not respond to a request for comment.

On a conference call to discuss the deal, the two banks’ chief executives emphasized that a new name and brand, just like the new headquarters city (Charlotte, N.C., instead of BB&T’s Winston-Salem or SunTrust’s Atlanta), would be part of a fresh start for both.

“I can assure you no two individuals are more attached to their brands,” SunTrust CEO Bill Rogers said during the call. “We both knew this was about the future, so while we honor and respect our past, absolutely, we elected to create a new brand that reflects our future as the premier financial institution.”

Neither company has publicly hinted as to whether they will choose a name made up of a word or words that already exist or coin their own name. Branding and marketing experts are reluctant to spitball ideas without background research (or pay). Nonetheless, they offered some different ways of thinking about naming a new bank.

Brand names can be surnames, like Wells Fargo, descriptive, like Bank of America, or connotative, such as Discover, Beahm said. Further, a brand can choose an invented name, such as Synovus, or a linked name, like BankUnited.

But whatever the new organization decides, Beahm said it should follow a few particular rules. The new name should be short, ideally three syllables or less. It should be memorable and free of negative connotations. And it should be easy to pronounce.

“People tend to avoid saying words they aren’t sure how to pronounce, and you want to encourage people to say your name,” he said.

An invented name can be unique and easier to trademark, experts say. However, many people also associate coined names with the pharmaceutical industry, and for some that’s a turnoff, Bleedorn said.

While she acknowledged the risk of losing existing goodwill and reputation on either side, Bleedorn said, “This is an opportunity for a blank slate, to establish new connections, new relationships and potentially shed any negative baggage.”

A solid name can also provide a competitive advantage, Mathes said. By and large, the public views financial services as a commodity. A checking account is a checking account, after all. A good name can be a way to stand out. undefined
Briefings

Are the Loans In Aisle 6?
Walmart partners with Affirm in point-of-sale lending

Walmart will offer its customers point-of-sale loans for the first time — both on its website and in nearly 4,000 U.S. stores — under a partnership with the Silicon Valley lender Affirm.

The deal is a watershed moment for the consumer finance industry, as the nation’s largest retailer embraces a financing option that is being popularized by consumers who prefer not to put their big-ticket purchases on a credit card.

“Affirm is a great financing option for those customers who may prefer a fixed-term loan versus an open-ended revolving credit line to pay for larger baskets,” Walmart spokeswoman Marilee McInnis said in an email. “We want our customers to have choices that best meet their lifestyles.”

The partnership, which was announced in late February, is a coup for the privately held Affirm. The San Francisco company makes loans to customers of more than 2,000 merchants — including Expedia, Orbitz, Wayfair and Cole Haan — but Walmart is expected to quickly become its biggest retail partner.

Under the deal, Walmart shoppers will be able to get Affirm loans of three, six or 12 months to finance purchases ranging from $150 to $2,000. The loans are already being offered in Walmart stores, and they will be available to Walmart’s online shoppers in the coming weeks.

Financial terms between Affirm and the Bentonville, Ark.-based retail giant were not disclosed.

Affirm’s chief executive, Max Levchin, said in an interview that it took almost a year for his company to build the technology to support the Walmart partnership. Previously, his 7-year-old company was mostly focused on making loans to online shoppers. When Affirm began working with Walmart, it had to figure out how to offer its loans in brick-and-mortar stores in a convenient manner.

The solution that was adopted will enable shoppers at Walmart Supercenters to apply for point-of-sale credit without having to talk to a store employee about their financing needs.

Shoppers will see signs next to certain items — the list of products that are eligible for financing through Affirm include electronics, furniture, sporting goods and more — directing them to a website where they can apply for a loan. From their mobile phones, applicants will be asked to provide their name, date of birth, email address, mobile phone number and the last four digits of their Social Security number.

“The underwriting process is basically instant. And once you’re approved, you get a bar code, which is what a cashier at Walmart can scan, and the transaction can close with that,” Levchin explained. “So it’s an extremely smooth process.”

Walmart customers will also be able to browse online and get preapproved for an Affirm loan before visiting a store to complete the purchase.

Affirm has positioned itself as a straight-shooting consumer lender — a firm that offers clear pricing terms and does not charge late fees. Its loans carry annual percentage rates ranging from 0% to nearly 30%, depending on the risk presented by a particular borrower.

Levchin, a PayPal co-founder, drew a contrast between the terms that Affirm offers and those available on credit cards. He has frequently criticized the card industry for keeping its customers in debt over a long period of time.

“I think, 10 years ago, if you’d told someone that credit cards are going to be challenged as the predominant way of paying for things, people would have laughed at you,” Levchin said.

“In some cases they’re wonderful tools, and in other cases they’re not. In fact, it’s kind of a blunt tool. And it’s a tool with no safety on. If you’re not careful, you’re going to end up revolving forever and paying a lot of interest.”

Levchin said that Walmart was interested in partnering with Affirm in part because his company offers a straightforward proposition to its customers. In 2017, Walmart announced that it was ending deferred interest financing on its credit cards, he noted.

Deferred interest credit cards offer 0% financing for a certain number of months, but then charge retroactive interest if the full balance has not been paid off in time.

The Walmart spokeswoman described Affirm’s loans as consumer-friendly. “Their commitment to transparent pricing, affordability with no hidden or late fees, and omni-convenience makes them a great partner,” she said.

Walmart still offers various other payment options to its customers, including credit cards. The retail behemoth announced last summer that it was ending a long-running card partnership with Synchrony Financial and signing an exclusive new deal with Capital One Financial. — Kevin Wack
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When Kalpesh Kapadia came to the United States 24 years ago to study, he couldn’t get credit. “I came from a privileged background in India, both financially and academically,” he said. “I was a top student, and when I came here, I had to start all over again.”

His classmates all had student loans. Kapadia, who is now the chief executive of Deserve, which he founded, had to go to his parents. And he couldn’t get a credit card for two years.

Rohit Mittal, the CEO of Stilt, and his co-founder Priyank Singh both had trouble getting credit as international students in the U.S. “I was not able to rent an apartment or get a loan to complete my education,” Mittal said. “My co-founder, who was highly paid at Microsoft, wasn’t able to buy a car in Seattle. He had to save money for months to make a 50% down payment. Most of our non-U.S.-citizen friends were in the same boat. We lived with these challenges for years and many continue to do so every day.”

Jason Gross, founder and CEO of Petal, was affected by the experience of one of his co-founders, Berk Ustin, who came from Turkey to the U.S. in 2005 for undergraduate studies at the University of California, Berkeley. He was turned down when he applied for a credit card, even though he had worked at Amazon and a hedge fund.

Kapadia, Mittal and Gross have founded fintechs that use machine learning to help provide credit to immigrants who have no credit history in this country and often don’t even have a Social Security number. Instead of relying on a credit report and a FICO score, they analyze other data elements such as bank account cash flow and bill payments.

Longtime industry observer John Ulzheimer applauds these efforts. “In my mind, as long as the data is predictive and cannot be gamed, then more power to the companies that design and develop the tools and the companies that use them,” he said. “I don’t believe we’ll be replacing a traditional credit report anytime soon as that data is still the most commonly used data.”

The problem

According to Kapadia, there are 1.2 million foreign students in America. That’s one out of six.

“The population has grown over the last 24 years, but the services they are offered have declined,” he said.

After the 9/11 terrorist attacks, the U.S. government stopped issuing Social Security numbers to international students unless they had a job.

“Without those Social Security numbers, you do not exist in the financial system,” Kapadia said. “You’re invisible.”

In 2009, the Credit Card Accountability Responsibility and Disclosure Act was passed, limiting banks’ ability to market credit products to students. As a result, half of students in the 18-to-24 age bracket have no credit card or credit history. “It’s a Catch-22 situation,” Kapadia said. “People who don’t have credit, can’t get credit. And if they can’t get credit, they can’t build their credit score.”

The offerings

Deserve provides credit cards and loans to international students and young professionals 18 to 29 years old with thin or no credit files. The interest rate is around 20%. Cardholders can qualify for escalating travel and entertainment rewards as their FICO score goes up.

By Penny Crosman

Bank Technology

Lenders Without Border Walls

Some fintechs have figured out how to provide international students and immigrants with credit cards and loans. Machine learning makes the underwriting possible.
such as bank account cash flow and bill payment.

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The offerings
Deserve provides credit cards to students and young professionals 18 to 29 years old with thin or no credit files. The interest rate is around 20%. Cardholders can qualify for escalating travel and entertainment rewards as their FICO score goes up.

“We want to be providing you with the best credit card for the stage of life you’re in; we want to retain you as a customer, not lose you to another company,” Kapadia said.

Deserve also offers its card as a white-label service for others. Sallie Mae is a client.

To comply with the CARD Act, Deserve does not market on campus.

“We do not give you a T-shirt or a USB drive to apply,” Kapadia said. “We don’t solicit applications. And when we talk to campuses, our focus is on financial literacy and credit education.”

Student cardholders are also encouraged to make full, on-time payments.

Raj Date, former deputy director of the Consumer Financial Protection Bureau and current managing partner of the venture capital firm Fenway Summer, was an early adviser to and investor in the company.

Petal offers a similar credit card for which interest rates range from 14.5% to 25.5% and there are no fees. It also offers a line of credit of up to $10,000.

Stilt offers loans to immigrants, international students and visa holders. It doesn’t require a Social Security number. Its rates range from 7.99% to 35.99% depending on state usury laws.

Where machine learning comes in
Deserve uses machine learning for identity verification, fraud detection and fair lending compliance.

The company has developed an analytics-based credit-decisioning framework. To verify identity, Deserve requires a government-issued ID and checks the DHS database to verify the applicant’s immigration status in this country. It validates that the address is of an actual residence (P.O. boxes and commercial addresses are not accepted). The phone number and email address are also investigated.

Once the identity has been verified, the software looks at ability to pay, taking into consideration information in the credit application. Deserve does a credit report pull to make sure the applicant hasn’t abused credit in the past — a person won’t be approved if they have a blemish on their credit report. If they have no credit report, it’s no problem.

Then the software does a cash-flow analysis on the applicant’s bank account with the help of the data aggregator Plaid. It looks for telling behavior like late fees or overdrafts, and regular direct deposits, subscriptions and bills paid on time.

Deserve comes up with a composite score that takes into account identity and ability to pay. This score tends to correlate strongly to the person’s eventual FICO score, Kapadia said.

Petal also has the ability to do cash-flow underwriting.

“We’re looking at the whole picture. We’re looking at cash-flow data and traditional bureau data to arrive at what we call the full digital financial record of the applicant,” Gross said.

“Cash flow allows us to approve people even if they have no credit information at all.”

Machine learning lets the company look at thousands of data points that have complicated relationships to one another, Gross said.

For instance, like most creditors, Petal considers income and monthly expenses, along with trends and volatility in that information.

“We like to sum it up as measuring the amount that somebody makes, saves and spends on a monthly basis,” Gross said. “We like to apply something that I call the kitchen-table test — which is, if a family sitting around

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their kitchen table is trying to decide whether or not they can afford a big purchase, maybe it’s a new car or a vacation, what are the things that that family is talking about? They’re not talking about their history of using credit or their credit utilization. They’re talking about: How much money do we have in savings? What’s my next paycheck? What bills do we have coming up? Because we know that, at the end of the day, that’s what really describes whether you can afford the new thing.”

Some traditional banks shy away from using machine learning in their underwriting. They cite concern about what regulators will think and about the risks of replacing underwriting systems they’ve used for decades.

Gross and Kapadia both say that rather than having a black box for decision-making — which is regulators’ top concern about the use of artificial intelligence in underwriting — their systems are transparent and auditable.

And in the case of Petal, its bank partner, WebBank, is regularly examined by regulators who are fully aware of the underwriting model.

Stilt uses machine learning techniques to make sense of financial and nonfinancial data. “We have categorized and ranked 100,000 universities across the world along with millions of employers, jobs and positions,” Mittal said. “We also use transaction-level data from their bank accounts to understand daily, weekly, and monthly spending patterns. We can combine deeper characteristics of applicants that are highly correlated with on-time repayment behavior. This also helps reduce fraud.”

Outcomes
Deserve has been at this for three years and has 50,000 cardholders from 164 countries. They’re mostly students, spread across 2,400 colleges in all 50 states.

The delinquency rate on the card is between 2% and 3%, with delinquency defined as 90 days past due. The annualized charge-off rate is between 5% and 7%.

Gross, who launched Petal with WebBank a year ago, wouldn’t specify the number of cardholders, but said he hopes to have 100,000 by the end of the year. The company now has 70 employees and it received $30 million in Series B funding in January led by Peter Thiel’s Valar Ventures.

Users of Petal tend to be people who, because of the CARD Act and the financial crisis, are getting their first credit card post-college. “They are starting their credit journeys a little bit later in life,” Gross said. “That’s one of the reasons why a product like the Petal credit card is so important today. You have people applying to their first credit card when they’re in their 20s and they have a real financial need and the only products available to them are the cards that used to go to students. There’s a gap in terms of being able to meet the needs of today’s new-to-credit consumer.”

Petal is also attracting a lot of international students and professionals, he said.

He declined to discuss delinquencies and charge-offs, saying it is too early.

“We are optimistic based off the repayment behavior and the utilization that we’re seeing in the portfolio today,” he said. “We’ve seen good performance, even from the credit-invisible consumer in the portfolio. We will obviously be learning more as time goes on.”

Stilt did not disclose how many borrowers it has either. It’s lending in 15 states. More than 90% of its borrowers are between 24 to 35 years of age and their average income is $80,000. They hail from more than 100 countries, primarily India, Mexico, China, Nigeria, Canada and the U.K.

Lessons learned
Stilt set out with a goal of helping international students get better access to credit. One thing the company has learned in the past three years, according to Mittal, is that the problem is much bigger and acute than he initially imagined.

“The U.S. credit system is fundamentally stacked against new immigrants who move here to build a new life,” Mittal said. “It takes them years to build a financial standing. They also turn out to be one of the better asset classes in personal loans. They are motivated, high-quality individuals who understand credit and do whatever it takes to pay their dues.”

Jason Gross at Petal said he has found that this type of product is harder than it looks.

“We’ve learned how operationally complex and difficult it is to change the way things are done in this industry,” he said. “We’ve recruited a world-class team to rebuild the credit card from the ground up, and changing decades of industry practice requires significant investments of time and resources. It’s hard work, but necessary if you want to create a best-in-class product.”

Youth Movement
How banks, fintechs are tackling a tech talent shortage
Abdullah Kareem’s life in Iraq was normal until his father got a letter from terrorists who threatened to kill his entire family. The family escaped to Turkey, and spoke with a colleague, front-end engineer Ryan Moore, about the opportunities he found for Abdullah while he was visiting the Utah Refugee Education and Training Center a few years ago. He noticed signs for a computer science class and creating opportunities that are good for corporations and communities across the country, by fintechs, banks and for the people that live in those communities.”

Marcos Minond, a software engineer at MX engineering department. The company now has 70 employees and it received $30 million in Series B funding in January led by Peter Thiel’s Valar Ventures. “There’s this public-private partnership,” he said. “It’s about putting engineers and creating opportunities that are good for corporations and communities, because each needs the other to thrive.”

The community is more than co-founders and fintech investors. “We’re engaging with social entrepreneurs and good people who want to create opportunities for other people.”

MX engineers chose Kareem and a few others to thrive.”

Turkmenistan. He learned about America and the possibility of a better life, but he soon realized the language barrier was a significant hurdle.

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Bank Technology

Turkey, and then came to the United States, with help from the United Nations.

He was 9 years old then and wanted to be a pilot. But his life took a turn while he was visiting the Utah Refugee Education and Training Center and he saw signs for a computer science class being given by engineers at MX, the financial data analytics vendor in Lehi.

Kareem took a few classes, where he learned about computer languages and what it’s like to work in a computer science engineering department. The MX engineers chose Kareem and a few other students for MX internships.

Now Kareem, who will soon graduate from high school, would like to major in computer science. “I hope any student goes through this program, even if they’re not interested in computer science,” he said.

Versions of the program like the one Kareem took part in are being held across the country, by fintechs, banks and fintech accelerators. They help companies cope with a tech talent shortage while helping less-advantaged pockets of their communities.

“This is something we’re going to see more and more,” said Brad Leimer, co-founder of the venture capital and fintech advisory firm Unconventional Ventures. “There’s this public-private social contract around re-education and creating opportunities that are good for corporations and communities and for the people that live in those communities, because each needs the other to thrive.”

MX

Marcos Minond, a software engineer at MX, heard about the Utah refugee center a few years ago. He noticed there were no programming classes and spoke with a colleague, front-end engineer Ryan Moore, about the possibility of creating some classes to help immigrants prepare for a job.

“We went back to the refugee center and they were all for it,” Minond said.

In about six months, they put together a curriculum and started teaching, for free on their own time, focusing mainly on the popular Java programming language.

Many of the students, they’ve found, were studying computer science when something happened in their home country (Syria, Iraq and Somalia in some cases) that forced them to flee. Then they spent several years trying to get permission to settle in a new country.

“They have skills, intelligence and problem-solving abilities that come from taking a horrific solution, staying optimistic and working to better their conditions,” Moore said.

MX has taught 150 young refugees how to code. It also has hired several as interns, which has allowed Moore, Minond and others to spend work hours mentoring them.

Such programs can help fill a very specific tech talent gap, Moore said.

“Right now, there’s a disconnect between what the industry needs and what many applicants are providing,” he said. “If we can get this model to work, it could help fill a niche that’s currently missing.”

Carolina Fintech Hub

The Carolina Fintech Hub, which launched about a year ago, works with Bank of America, Wells Fargo, Ally, BB&T and other banks in the area to coax fintech companies to come to the Carolinas. It also helps banks looking for talent by teaching disadvantaged people to code.

Local nonprofits such as Black Tech Charlotte and Goodwill help reach out to potential participants about the program. Another partner, Jobs for the Future, assesses the applicants, who don’t need to have any coding or technical background. Tech Talent South provides six months of Java training.

The participating banks — Bank of America, Ally and BB&T — start paying people the equivalent of an annual $30,000 salary on day one of the training. At the end of the six months, the participant starts a full-time job at one of the banks and their salary rises to $55,000.

“If you pass the week-over-week requirements, you don’t have a promise of a job, you have a job,” said Tariq Bokhari, executive director of the Carolina Fintech Hub. “A lot of these folks are giving up an Uber or waiter job.”

The program participants also can get help with personal needs like child care and transportation.

The goal is to train 50 people in this first round; more than 1,000 people applied.

The fintech hub hopes to improve upward mobility in the Carolinas and prove there’s homegrown tech talent in the two states.

“Whether there’s a real or perceived lack of tech talent, that came to a head in the Amazon headquarters competition,” said Bokhari. “The fact that we didn’t make it hurt a lot of egos around here.”

Bank of America

Bank of America launched a 2020 Campaign with Code First: Girls in May 2018 (Goldman Sachs is also a campaign partner). The goal is to help 20,000 women in the U.K. and Ireland learn to code by 2020. BofA provides financial support and employees’ time to the program, which is open to all women over 18 in the two countries.
The bank hosts eight-week coding courses for young women as part of this initiative. Many of the bank’s senior female technologists also have mentored the young women and taught them about the careers available in technology and financial services.

So far, the program is about halfway to its goal and the bank has hired some of the participants.

BofA also partners with a similar group, STEMettes, and hosts interactive weekend coding events such as “How Machines Work.” Separately, it offers internships to young high school graduates in partnership with Year Up.

The grow-your-own-talent model appears to be building momentum.

“We’re in a new era of work,” Leimer said. “How do we then take care of people who have already been struggling to build savings and create opportunities for long-term investment and wealth creation that are important to the story of financial narratives? How do we do that in communities that have fewer and fewer opportunities for people to get the right education that matches the jobs of the future?”

— Penny Crosman

**Can’t Touch This**

**Fifth Third’s Dobot app stashes savings away in a ‘money jail’**

Most Americans would like to save more, but short-term needs and temptations interfere. If there were a way to stash money in an account that couldn’t immediately be accessed, many say they might have more success with their savings goals.

It was that insight into human behavior that inspired the development of the savings app Dobot.

The app analyzes users’ financial activity and withdraws small amounts that its algorithm figures won’t be missed. The money is put into a savings account separate from the one earmarked for daily spending.

Users are encouraged to name their savings goal and upload a photo, so that when they log in, they see their photo along with a progress bar.

Dobot was launched in 2016 and was acquired by Fifth Third Bancorp last year. The $145 billion-asset Fifth Third relaunched Dobot as a stand-alone app in February, with the intent of attracting more millennial customers.

Fifth Third’s Dobot rollout is yet another example of a regional bank playing up financial wellness in its digital offerings. Huntington Bancshares recently launched Heads Up, an artificial intelligence-enabled feature that warns users when their spending might clash with their savings goals.

“Financial wellness is really becoming the new digital engagement strategy,” said Tiffani Montez, a senior analyst at Aite Group. “There’s always been an active push to move digital banking from something that is more transactional and reactive to something that is more personal and proactive.”

Though banks have been promoting personal financial management tools for a while, they haven’t always done a good job at showing users how their daily financial habits affect their overall financial picture, Montez said.

But the tools are getting a lot more useful lately, especially with helping consumers understand “the relationship between spending, savings and debt,” she said.

The $109 billion-asset Huntington is taking a stab at that with Heads Up.

Incorporated into the bank’s digital platform, Heads Up uses AI and predictive analytics to analyze customer activity and send an alert if it detects potential trouble. For example, it will ping a customer if the current balance is too low to cover what is typically spent in a week.

Fifth Third’s Dobot focuses more narrowly on savings.

Most banks already allow customers to automate their savings, and some have experimented with twists on that. For instance, Bank of America’s “Keep the Change” program rounds up debit card purchases to the next dollar and moves the extra change into a savings account.

Few, if any, banks currently offer something quite like Dobot, though apps like Digit and Qapital operate on a similar principle: Most consumers won’t miss small withdrawals and squirreling away little bits of money at a time will eventually add up.

Andy Zurcher helped launch Dobot and is now the senior product and channel manager at Fifth Third. He said he is using Dobot to help his daughter save for her birthday party.

“For me to take money out of that goal, I have to look at my daughter’s face, tap into that goal and physically remove the money,” he said. “That becomes our money jail, if you will.”

The app is free to anyone, regardless of whether they bank with Fifth Third. While the deposits will be housed at Fifth Third, the bank doesn’t see this as a deposit-gathering strategy, so much as part of its broader play to attract millennials.

Most users set goals between $500 and $5,000, with $1,000 as the most common goal. Fifth Third said users’ goals currently total around $22 million.

Some of the most popular savings goals are vacation funds, car down payments, home improvements and weddings.

— Laura Alix
**MERGERS & ACQUISITIONS**

**ACQUISITIONS BY REGION** Whole Bank and Branch Deals in 2018

**West**
- Total Deals: 21
- Announced Value: $2.9B

**Midwest**
- Total Deals: 55
- Announced Value: $8.4B

**New England**
- Total Deals: 10
- Announced Value: $2.1B

**Southwest**
- Total Deals: 26
- Announced Value: $4.2B

**Mid-Atlantic**
- Total Deals: 15
- Announced Value: $2.2B

**Southeast**
- Total Deals: 42
- Announced Value: $8.3B

**TOP ADVISERS BY REGION**

### MID-ATLANTIC

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Subtotal for the top five advisers: 2,242

### SOUTHEAST

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Subtotal for the top five advisers: 6,933

### SOUTHWEST

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Subtotal for the top five advisers: 3,987

### WEST

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Subtotal for the top five advisers: 2,777

### MIDWEST

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Subtotal for the top five advisers: 7,809

### NEW ENGLAND

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Subtotal for the top five advisers: 2,105

**Notes:** Deal activity credited to regions where sellers were located. All advisers on individual deals assigned equal credit. Some deal values were unavailable.

Source: Dealogic

americanbanker.com

April 2019 American Banker 13
Ready for Business

After a decade with few new bank formations, dozens of hopefuls are lining up.

For Shaza Andersen, starting a new bank is as much a personal decision as a financial one.

The day after the $2.1 billion-asset Washington-First, the bank she founded 15 years ago, announced it would be sold, Andersen remembers how quiet the office was, the typical chatter among employees muted as they processed the news.

The decision made sense financially for shareholders — Sandy Spring Bancorp in Olney, Md., agreed to pay 256% of tangible book value in the May 2017 deal — but Andersen struggled with the idea of letting go of the company and the team she built.

She recalls sitting in the car with her husband, reading aloud some of the letters and emails she received from employees, and crying. Stories of having a child while working for the Reston, Va., bank. Of the support they felt from the team. Of how she had helped advance their careers.

Now, a year after the deal with Sandy Spring closed, Andersen is starting over again.

She is leading efforts to form a new bank in the Washington, D.C., area, and in that idea she has a lot more company lately than there has been in years.

Regulators are encouraging new bank formations, after a decade of sparse activity in the wake of the financial crisis.

The pace is starting to pick up in response, with 15 getting approval last year and dozens more in the pipeline.

Though the fundamentals of organizing a bank are largely the same as in decades past, none of the details seem to be.

What organizers like Andersen will find has changed this time around — besides regulators who are eager to be helpful — is the need to raise more initial capital, to have a broader management team signed on while still in the planning stage, to set realistic growth expectations, to have a more diverse business plan that does not rely too heavily on commercial real estate, and to push any plans for an exit strategy further out than in the past.

Consultants working with organizing banks say the capital needed today is double or triple what might have been considered adequate before the financial crisis, in part because of the need to
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scale up to reach profitability more quickly.

Andersen, though, says she believes all the effort will be worth it. “I love my job,” she said. “We are helping people realize their dreams.”

**Buying is an option**

Historically, consolidation gave rise to new banks, as entrepreneurial management teams would spin off from the acquired bank and start anew. But after the financial crisis, almost nobody chartered a new bank. Instead, they often chose to purchase a small bank, add capital and relocate it to a metro area — a workaround that regulators encouraged.

One recent example of these so-called “de facto de novos” is the $72 million-asset Bank of Houston, a subsidiary of BOH Holdings.

James Stein, the chairman, president and chief executive of Bank of Houston, is a second-time bank builder. He concluded this time around it would be better to buy a bank than charter one.

Stein’s group raised $17.5 million to purchase and recapitalize the $28 million-asset Dublin National Bank in Dublin, Texas, in April 2018. The bank’s headquarters was moved to Houston in May 2018 and its name changed to Bank of Houston. But it also still serves the Dublin market.

The group is currently doing a secondary offering to raise another $15 million to $20 million.

“It’s more difficult to go down the de novo path. So few of them have been chartered,” Stein said. “But there are lots of smaller community banks out there that don’t have a succession plan and have reached the end of their natural growth progression.”

The benefits of buying included existing core deposits, a bank that is operating day one and an experienced back office, Stein said.

Still, buying a small, rural 126-year-old bank presented its own challenges — it wasn’t a turnkey solution to the model Stein needed to serve his Houston market this time around.

“We are going through the process and bringing in all new IT vendors,” he said. “We are upgrading technology across the board, making ourselves easier to do business with.”

Data provided by the Federal Deposit Insurance Corp. shows many groups still prefer to buy versus charter. That suggests overall de novo activity is even stronger than the startup numbers alone imply. From July through December last year, 14 groups of bank organizers went through the change in control process — meaning they acquired a bank — while deposit insurance was issued to 13 new charters in that same period.

Dan Bass, managing director in the Houston office of Performance Trust Capital Partners, said often regulators prefer organizers to buy a small bank and relocate it.

“A lot of small charters don’t have long-term plans, and this kills two birds with one stone,” he said. “It brings new capital into the banking industry and solves the problem with little banks that don’t have succession plans.”

Bass said regulators expect for the acquiring group to continue to serve rural communities after the headquarters are moved.

Besides Bank of Houston, Bass said five other groups acquired a small bank in Texas and moved its headquarters to a metro area in 2018. By comparison, there were no newly chartered banks in the state last year.

But the purchase model isn’t right for everyone. Texas did have one fresh charter in 2017, when Bank of Austin opened its doors.

Kurt Purdom, the deputy banking commissioner for the Texas Department of Banking, said he sees many reasons that organizers might not be quick to open despite consolidation in the state — including the daunting regulatory process and thin margins caused by low rates. As rates start to rise again, he expects to see more interest.

Purdom said a few groups have come in to inquire about chartering a new bank recently, though he hasn’t officially received their applications yet.

But, he stressed, “We are open for business.”

**Then and now**

Industry experts don’t expect the volume of de novo banks to rise to the levels seen before the financial crisis — when an average of more than 100 were approved annually.

Any fears of a cycle repeating are tempered by the tamer numbers and heightened supervision.

Today’s de novos are subject to more scrutiny and guidance from regulators than their counterparts before the financial crisis, industry experts said. They must communicate with regulators often to ensure they don’t stray from expectations.

As with the regulators, bankers and de novo organizers also learned lessons from the financial crisis, said Lee Bradley, senior managing director at Community Capital Advisors in Duluth, Ga.

“I think for bankers that went through the financial crisis, those wounds are still fresh,” Bradley said. “We are never going to go back to those days of purely living off of commercial real estate, and the regulators are keenly aware of that past too.”

Young banks represented an outsized number of bank failures during the financial crisis. Among banks chartered between Jan. 1, 2000, and Dec. 31, 2008, those under $250 million in assets accounted for 40% of failures, compared with 17% before the crisis.

The group also offered a commercial real estate line of business for itself.

The report also found that de novo banks are funded more heavily on brokered deposits to fuel growth. So regulators are even more interested in столу than the regulators looking to encourage de novo chartering.

Andersen, though, says she believes the bar to entrance for a new bank is even higher than the startup numbers alone imply. From July through December last year, 14 groups of bank organizers went through the change in control process — meaning they acquired a bank — while deposit insurance was issued to 13 new charters in that same period.

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Any fears of a cycle repeating are tempered by the tamer numbers and heightened supervision.

Today’s de novos are subject to more scrutiny and guidance from regulators than their counterparts before the financial crisis, industry experts said. They must communicate with regulators often to ensure they don’t stray from expectations.

As with the regulators, bankers and de novo organizers also learned lessons from the financial crisis, said Lee Bradley, senior managing director at Community Capital Advisors in Duluth, Ga.

“I think for bankers that went through the financial crisis, those wounds are still fresh,” Bradley said. “We are never going to go back to those days of purely living off of commercial real estate, and the regulators are keenly aware of that past too.”

Young banks represented an outsized number of bank failures during the financial crisis. Among banks chartered between Jan. 1, 2000, and Dec. 31, 2008, those under $250 million in assets accounted for 40% of failures, compared with 17% before the crisis.

The report also found that de novo banks are funded more heavily on brokered deposits to fuel growth. So regulators are even more interested in de novo chartering.

Andersen, though, says she believes the bar to entrance for a new bank is even higher than the startup numbers alone imply. From July through December last year, 14 groups of bank organizers went through the change in control process — meaning they acquired a bank — while deposit insurance was issued to 13 new charters in that same period.

Dan Bass, managing director in the Houston office of Performance Trust Capital Partners, said often regulators prefer organizers to buy a small bank and relocate it.

“A lot of small charters don’t have long-term plans, and this kills two birds with one stone,” he said. “It brings new capital into the banking industry and solves the problem with little banks that don’t have succession plans.”

Bass said regulators expect for the acquiring group to continue to serve rural communities after the headquarters are moved.

Besides Bank of Houston, Bass said five other groups acquired a small bank in Texas and moved its headquarters to a metro area in 2018. By comparison, there were no newly chartered banks in the state last year.

But the purchase model isn’t right for everyone. Texas did have one fresh charter in 2017, when Bank of Austin opened its doors.

Kurt Purdom, the deputy banking commissioner for the Texas Department of Banking, said he sees many reasons that organizers might not be quick to open despite consolidation in the state — including the daunting regulatory process and thin margins caused by low rates. As rates start to rise again, he expects to see more interest.
31, 2006, 15% ended up failing, according to data from the FDIC. In comparison, 5% of banks chartered before 2000 ultimately failed.

The more recently chartered banks also tended to fail more often than established banks during the 1980s banking crisis, a pattern the FDIC noted in its analysis after the 2008 meltdown.

This insight prompted the FDIC to make a change in 2009, lengthening the time that new banks were subject to greater regulatory scrutiny. The agency raised the so-called official “de novo” period to seven years, up from three years.

That was scaled back to three years again in 2016, in a tangible sign of regulators looking to encourage applications for new charters.

Though industry watchers agree that the bar to entrance for a new bank has been significantly raised, they also say regulators are interested in streamlining and making the process as transparent and efficient as they can.

“There is a true interest from Washington to increase the number of de novos out there,” said Randy Dennis, president of DD&F Consulting Group in Little Rock, Ark.

Most of the de novo bank failures during the crisis were tied to unfeasible growth expectations and decisions to stray from approved business plans. Often the failed de novos also had high concentrations of commercial real estate in their portfolios and relied heavily on brokered deposits to fuel growth. So regulators are even more skeptical of alternative forms of funding for de novos these days and emphasize core deposits more heavily.

The plan at Bank of Houston — and several other de novos — is to rely on a commercial and industrial line of business, along with shareholders who will both have deposit accounts and help drive business to the bank.

Find a leader

Of all the steps in winning approval for a de novo, finding the right leadership is paramount, said Byron Richardson, a senior consultant at Bank Resources who works with de novo groups.

Regulators look for savvy directors and management teams who have run or started banks before.

Bankers who are qualified to run de novos — and are interested in it — are harder to find after the long interlude from new bank activity, Richardson said. Just two new banks opened between 2011 and 2016.

“All these folks who started banks in 2006 or 2007, they are 10 years older and some of them have aged and are not willing to commit the time or effort for a startup venture,” Richardson said.

Still, activity has picked up considerably, by all accounts. Since 2017, at least 36 groups either have opened banks or have started planning to do so, according to data compiled by American Banker. Of these ventures, women are leading five.

Most of the half a dozen de novo banks that opened in 2018 identified CEOs early in the organization process. Investors are more likely to invest in a business when they know who will be running it, consultants said.

Investor-led groups that wait too long to hire bank management teams may face a longer approval process.

Organizers of Scottsdale Community Bank in Arizona have taken a lot of time getting ready to apply to the FDIC — 10 years. But the group hired a CEO in late 2018 and is now in the midst of raising its initial capital.

The next step will be filing its FDIC application. Mainly the group wanted to wait for better economic conditions before diving into the organization process, said George Weisz, who is expected to become chairman of the proposed bank.

A change in tone

Regulators and bankers were rusty on the de novo application process after a nearly 10-year hiatus from new bank formation.

Besides, for many years, low interest rates and increased regulations made it hard to justify new banks, said Thomas Curry, a partner at the Boston law firm Nutter and former comptroller of the currency.

The FDIC approved 15 de novo applications in 2018, more than the number of the previous four years combined. By comparison, about 200 applications got approved in 2008, in the months leading up to the financial crisis.

“There was not a lot of interest on the part of organizing groups after such a scary moment,” said David Baris, a partner with the law firm of Kennedy Sutherland in Washington, D.C.

The lack of activity is likely not all attributable to the economy and regulatory attitudes, in his view. “Perhaps it’s a perception that the future of community banks isn’t quite as rosy as it was before,” Baris said. “I can’t explain it all as to why there is a drop-off like this.”

Pennsylvania’s Bank of Bird-in-Hand became the first de novo to get approved after the financial crisis. The bank was organized in 2013 by a group of mostly Amish businessmen who raised $20 million in initial capital with the intention of serving the Amish community east of Lancaster.

“We started with 10 people and we did everything from changing toilet paper to forecasting — we did it all,” said Lori Maley, Bank of Bird-in-Hand’s president and CEO. “Now we are up to

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April 2019 American Banker 17
50 employees in just over five years.”
Early on the group sometimes felt like the regulators’ guinea pig, Malley said. “We plowed the way” for other de novos, she said.
One key to getting approval was convincing regulators that the Amish and Mennonite farmers and small-business owners in the Lancaster area were underserved. Despite facing intense regulatory scrutiny and skepticism, the group succeeded — though it would be two more years before another organizing group would manage to get a charter.
Organizers and industry observers say that attitudes toward de novo banks have improved dramatically since Jelena McWilliams took over as the FDIC chair last year. The agency now holds roundtable discussions around the country about the de novo application process, recently updated its de novo guidebook and is currently seeking input about ways the application process could be streamlined or otherwise improved.
“I do truly believe there has been a change from the top down,” Malley said.
Andersen, the proposed CEO of Trustar Bank in Virginia, was pleasantly surprised when FDIC officials offered to travel to meet with her team in person after she expressed interest in starting another bank.
“In all my years of working with the FDIC, our case managers and regional directors have never come to visit us,” Andersen said, adding that her group typically would have to fly to meet with the regional office in Atlanta. “This was the first time we felt a change in the way they have done business.”
Andersen said she is also impressed that the FDIC has adhered to its internally set timelines for the review and comment periods during the application process.
“Every time we have called them, they have called right back,” Andersen said. “The responsiveness I feel has been tremendous.”

**Higher costs**
De novos today must have substantially more capital than the ones that opened before the financial crisis. Organizing groups can expect to raise at least $20 million to $25 million initially. Most startup banks before 2009 raised less than $10 million.
That higher barrier to entry has caused most new bank activity to occur near major metro areas, Baris said.
Last year new banks opened in Birmingham, Ala.; Nashville, Tenn.; and Sarasota, Fla. And the first de novo to open this year was Watermark Bank in Oklahoma City.
There are currently four banks being proposed in the Washington, D.C., market — Trustar Bank, VisionBank, Moxy Bank and Marathon International Bank.
Several of the newly organizing groups cite Washington’s diverse economy and recent bank merger activity as a driving force behind the efforts.
VisionBank keeps its temporary offices in a WeWork in Tysons, Va. Millennial entrepreneurs and startup founders mingle in the WeWork lobby, where members help themselves to fruit-infused water and kombucha bottles line a glass refrigerator.
The hip working environment contrasts with the suits worn by VisionBank co-founders Mindi McClure and Richard Horn. Still, the duo said they enjoy being in an innovative atmosphere surrounded by younger entrepreneurs.
The WeWork office “fits into one of our themes,” which is to recruit young employees and customers, said McClure, VisionBank’s proposed chair and CEO. “We want to create a great bank for today, for 2019,” McClure said, adding that she expects an emphasis on youthfulness to infuse a lot of fresh perspective.
“A whole generation has come up in those 15 years,” where startup banks were nearly nonexistent, she said. “People that age are becoming an important part of the economy and they’ve never worked with a startup bank.”
McClure, an investment banker, was the founding CEO of MHM Capital in 2009. Before that she spent 15 years at the investment bank FBR, where she helped small banks raise capital, develop strategic plans and do M&A deals.
She also served on the board of Bank of Georgetown until its sale to United Bankshares in 2016, and has personally invested in de novo banks.
The board service “let me see behind the curtain and see what really made community banking work,” she said.
She is proud that five of VisionBank’s 12 board directors are women. She also aims to recruit investors and future customers who vary in age and backgrounds.
VisionBank submitted its application to the FDIC in October and is currently raising $25 million to $30 million in startup capital.
The bank plans to serve small and midsize businesses in the Washington market; that’s where McClure and Horn, who is the proposed bank’s chief operating officer and general counsel, have spent the majority of their careers. Horn had been general counsel at WashingtonFirst.
The co-founders said their WeWork office neighbors could make great customers. They hope to open the bank by late May.
The number of banks in Washington has fallen by 25% since June 2008, from 102 to 77, according to the FDIC.
Lately there has been a wave of consolidation in the market among community banks. WashingtonFirst, Access National Corp., Middleburg Financial Corp., Cardinal Financial Corp. and Bank of Georgetown are five banks with assets of less than $5 billion in assets that were sold to larger competitors just in the past three years.

“What that means is there are a lot of customer relationships sitting in a bank where they never intended to be,” McClure said.

A familiar model
Increased regulatory and technology costs have caused hundreds of community banks to sell or merge in the last decade. The total number of banks under $1 billion in assets has fallen by 38% since the fourth quarter of 2004, to 4,667 institutions, according to FIG Partners research.

Most bank organizers cite the declining number of community banks as the primary reason for opening a new one today. The de novo banks that opened in 2018 all aim to fill a void left in their communities after consolidation.

The organizers seem undaunted by the tough operating environment that caused such consolidation.

McClure and Horn said they believe they have a technological advantage over established banks because they are able to start up new platforms rather than trying to improve clunky legacy systems.

G. Frank Teas, proposed CEO of The Millyard Bank in Nashua, N.H., contends there is a lack of local banks serving small and medium-sized businesses in his area. Of 21 financial institutions with deposits in that market, just seven of those are based in New Hampshire.

Teas started Nashua Bank in 2007 and sold it in 2012 to New Hampshire Thrift Bancshares, the parent of Lake Sunapee Bank, for $19.4 million.

The Millyard Bank submitted its application to the FDIC in December.

“I wanted to do it again,” said Teas, who grew up two miles down the road from the community bank his grandfather ran. “I am in love with community banking and I have a huge passion for being an integral part in a business owner’s success.”

Regulators are more comfortable approving business plans that aim to offer traditional banking services — to replace the financial institutions lost to consolidation. Organizing groups with a fintech slant or de novos hoping to hone in on one particular niche should expect to face more regulatory hurdles, greater costs and longer timelines, Baris said.

The fintech Varo Money, for example, which plans to offer consumer banking services with no fees, has faced several setbacks in its quest to gain a national bank charter, including having to pull its FDIC application in 2018 to address regulators' concerns.

The new banks that opened in 2018 embody the traditional community banking model. They are focused on their local communities offering services like commercial lending, private banking and consumer lending.

Even so, some in the industry would like to see new ventures tackling particular niches or putting an innovative spin on traditional banking services.

Ray Grace, North Carolina’s commissioner of banks, said he would like to see more de novos proposing innovative approaches to banking. He points to two examples of niche models that worked in his state — Live Oak Bank in Wilmington, which focuses on a few types of small businesses nationwide, and Square 1 Financial in Durham, which targeted entrepreneurs before it sold to PacWest Bancorp in 2015.

“These are very interesting models. They kind of intrigue me,” Grace said. “I like to poke and prod and figure out where the risk points are. I would like to see more of those, because it brings an innovative spirit into a business that badly needs it.”

Community banks need to change the way they approach banking to stay relevant, Grace said, adding that he’d like federal regulators allow more experimenting.

“I want to see the FDIC take a more flexible position with respect to that,” Grace said.

Ambitious timetable
The Trustar team started working together on Jan. 2, and Andersen said her bank could open as early as June. It’s an aggressive timetable — it took over a year of work to get WashingtonFirst open in 2004.

But Andersen feels confident, given the team’s previous experience with the de novo process.

Andersen said she had 75% of her investor subscriptions two weeks after her offering circular was distributed.

Trustar plans to raise $35 million to $50 million in initial capital. WashingtonFirst raised just $10 million before it opened.

Many WashingtonFirst investors — who made a lot of money when the deal to sell the $2.1 billion-asset bank to Sandy Spring for $489 million in stock closed in January 2018 — have been eager to invest in Trustar, Andersen said. The new bank aims to win back WashingtonFirst customers too.

“Things seem to be moving at a quicker pace than last time and that part has been exciting to me,” Andersen said.

Marissa Fajt contributed to this story.
The proposed merger of BB&T and SunTrust — which would create the sixth-largest bank in the United States — is no reason to sound an alarm. Over the last 155 years, Congress has constructed and reconstructed an arduous gauntlet for the review of bank mergers. The Dodd-Frank Act significantly raised those hurdles. Every merger either meets those standards and receives approval — or it doesn’t.

Every aspect of the proposed merger is painstakingly scrutinized — usually several times by multiple federal and state agencies. The process is not for the faint of heart. It is exhausting, costly and can take a year or more.

Some question the high percentage of bank mergers that are approved by regulators. That assertion ignores how the process works. There is very little that regulators don’t know about the merging banks before they propose to merge. Banks file voluminous periodic reports and their regulators often have examiners on site at large institutions for a major portion of the year.

In fact, banks usually don’t propose a combination without first having several regulatory pre-filing meetings and receiving assurances of likely approval from advisers that have war-gamed every legal, regulatory and accounting issue that could arise. Mergers that don’t meet the standards are rarely proposed, and so disapprovals should be infrequent.

Since the Dodd-Frank Act was enacted in 2010, few if any of the largest banks have announced or completed mergers with another bank.

Dodd-Frank rewrote the regulation of big banks adding, among other capital, liquidity and resolution standards, a systemic stability test and increased regulatory oversight the larger a bank becomes. When banks like BB&T and SunTrust go down the merger path, they are volunteering for closer regulation and enhanced financial regulatory targets.

The elephant in the room is the debate over the creation of “too big to fail” banks — a legitimate concern, but one that should be put in context. The U.S. has always had TBTF banks. And, for all the criticism laid at their feet, history tells us that larger institutions have stepped in to calm financial panics, created stability in times of duress and been an important partner with the Federal Reserve in balancing monetary and economic policy.

The merger of BB&T and SunTrust would create a bank with less than 25% of the assets of the largest U.S. bank. Globally, the picture takes on a much different perspective. Only two U.S. banks are among the top 10 in the world measured by assets, and none are in the top five. The top four banks in the world are Chinese. That is striking, especially in light of the fact that China has established a goal of global dominance in artificial intelligence by 2030. The U.S. cannot fall behind the economic arms race, particularly since the futures of financial services and artificial intelligence will likely merge.

There is a worthwhile debate to be had about what the composition of the U.S. financial system should look like — but it should include questions about why the U.S. has so many banking crises and how mergers impact them. As Charles Calomiris and Stephen Haber note in their 2014 book, “Fragile by Design,” since 1830 the U.S. has experienced banking crises in 10 different decades and lags only Argentina in frequency. Canada, which has a small number of large banks, has had only two banking crises with a handful of bank failures in that time. Since 1830, in excess of 7,500 U.S. banks and savings institutions have failed.

Does the U.S. have too many or too few banks? How does the size of banks impact the frequency of crises? Is regulation too intrusive, not intrusive enough or applied too unevenly? Should big banks be broken up, regional banks permitted to catch up as regulators seem to be allowing or should the market be left to evolve on its own? It would be good to have data-driven analytics to debate policy issues like these before the role and impact of a bank merger is considered. Torturing mergers that play by the rules whenever they happen to appear is an ineffective way of creating or changing national policy.

Thomas Vartanian is executive director of the Financial Regulation & Technology Institute of George Mason University’s Scalia Law School.
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Former Federal Reserve chair, expressing a lack of confidence in President Trump’s grasp of macroeconomic policy.

**KENNETH HARNEY**
“You can’t blame it all on the old folks.”
Washington Post real estate columnist, taking issue with a Freddie Mac study that said seniors choosing to age in place is preventing millennials from buying homes.

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Payday-loan industry attorney, reviewing a professor’s early draft of supposedly unbiased research showing that repeated loans don’t harm borrowers.

**ANNE FINUCANE**
“Dublin is our headquarters for our European bank now — full stop. There isn’t a return. That bridge has been pulled up.”
Bank of America’s vice chair, asserting that the move from London, prompted by Brexit, is permanent.

**DAN LYONS**
“Most startups are terribly managed, half-assed outfits run by buffoons and bozos and frat boys.”
Author of “Lab Rats: How Silicon Valley Made Work Miserable for the Rest of Us,” on the workplace culture at startups.

**ANGIE LONG**
“There wasn’t one guy in the room, and we all realized it and started laughing.”
Palmer Square Capital’s chief investment officer, recalling a meeting about a collateralized bond obligation that stood out for being unisex.

**NOURIEL ROUBINI**
“It is private not public, permissioned not permissionless, based on trusted authorities verifying transaction not trustless, centralized not decentralized. Calling it crypto is a joke.”
Economist who is highly critical of cryptocurrencies and blockchain, in a tweet about JPMorgan Chase’s new JPM Coin.

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