

Testimony of

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Bank Mergers and De Novo Formation”

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## **Introduction**

Chairman Barr, Ranking Member Foster, distinguished Members of the Committee, thank you for the opportunity to appear before you today to talk about my experiences as a community banker. With over 20 years of banking experience, I have seen and been involved with both de novo bank formation and mergers & acquisitions (M&A). I am passionate about the pivotal role bankers play in supporting the needs of our communities and the dreams of our clients. I am sharing my story in the hope that it will pave an easier path for others to do the same for their communities.

I am the Founder, President and Chief Executive Officer of BankMiami, a newly formed de novo bank headquartered in Miami, FL, which opened its doors almost two months ago on March 17, 2025. Over the 19 months prior, we developed our three-year business plan; built our team and board of directors; developed our policies for loans, investments, and operations; raised over \$38 million in capital; and ultimately received our charter. The process took almost twice as long as we thought it would, with a number of challenges along the way. Yet, I was confident we had three things that a de novo bank needs to be successful – market demand, interested clientele, and a strong banking team. It is with this recipe for success that I endured the obstacles knowing that if we were able to get our doors open, we would be helping our community.

## **The Lack of De Novo Banks to Meet Market Needs**

When we were making the business case for BankMiami, the need for additional banking services was obvious. From 2008 to 2023, the number of banks headquartered in Miami-Dade County went from 42 to 18. At the same time, the County had grown astronomically with a significant inflow of wealth and population as well as the creation and growth of small businesses. Florida's population grew 14.6 percent between 2010 and 2020, double the overall U.S. growth rate. Florida gained \$39.2 billion in gross adjusted income from migration in 2020. Between 2020 and 2023, the number of applications for new businesses in Florida had doubled. New businesses had brought \$9 billion in wages to Miami, and Miami was #1 for new technology job migration and GenX professional growth.

Moreover, Miami is a very diverse market, being the epicenter of both domestic and international business. In the Miami-Dade market, cookie-cutter banking solutions are not in high demand; but rather banks that really understand small business lending – those business owners with more complicated balance sheets. The niche in our town was for bespoke solutions tailored to the unique needs of our clients. For many years, there were handful of banks offering clients boutique banking services, but due to the high demand for acquisition of profitable banks in the market by larger institutions and by banks that wanted to enter the Miami-Dade market, the majority of those banks were acquired. One of the last remaining concierge style banks to sell in Miami was my former financial institution, Professional Bank. I was fortunate enough to help Professional Bank grow from a de novo bank formed in 2008, to a \$3 billion publicly traded bank before it was acquired by a larger institution in early 2023.

Our economy needs banks of all sizes, and M&A activity is good for markets. What has been missing is de novo bank formation for replenishment and to address the growing needs of those markets. Like Keith Costello with Locality Bank in Forth Lauderdale, BankMiami is the first de novo bank to form in Miami since the financial crisis, over 16 years ago.

## **Raising Capital**

Raising capital is challenging for all new businesses. When it comes to raising capital as a de novo bank, there are added pressures. We had to develop a business plan projecting forward three years from opening, which leads to the requirement to raise eight percent of what those projected assets will be three years from opening. In practical terms, that means we need to be projecting five years into the future. Additionally, you also must show profitability before the end of the three-year period. With the high cost of living in our market, to ensure that we had enough capital to not only cover our expenses but also meet the banking demands of our community, we had to raise a minimum of \$32.5 million before we could obtain our charter. In comparison, in 2008, Professional Bank was only required to raise \$12 million when we received our charter. Additionally, should any assumptions or conditions change, the business plan is nearly impossible to change during the de novo period due to regulatory scrutiny.

The story I have heard from many other bank entrepreneurs was our story too. We raised the majority of what we needed fairly quickly, boosting our confidence in our plan. Then we sat at six percent of capital for six months before we were able to push forward and ultimately finalize our raise. What we have found since opening was a lot more people were willing to invest once the minimum capital was met and an opening date was set, and even more so, once we got our doors opened. We have had multiple requests for investors to place funds in BankMiami, although the window is now closed. This confirms the ability to have a capital ramp up would be very beneficial to de novo banks formation, The eight percent requirement would be more easily achieved by allowing a ramp up period, more so than requiring eight percent before charter issuance.

Some of the challenges mentioned above demonstrate the necessity of the bill proposed by Chairman Barr. The bill (H.R. 478) would allow de novo bank formation in areas that need community banks the most by proposing a capital phase-in period; additionally, the bill would help all de novo banks by providing quicker responses and clearer guidelines for de novo banks requesting deviations from their original business plans.

### **Number of Investors**

Raising the amount of capital that is needed in the current structure often requires adding more investors to the shareholder base. The more investors a business has, the greater the pressure becomes to have a liquidity event, which leads to more M&A activity. If M&A activity continues to outpace de novo bank formation, many communities will be left with no community banks in their markets. Community Banks are the heartbeat of our banking system and without them, small businesses will be gravely affected.

The high capital requirements (leading to more investors) also limit the bank's choices of corporate structure. For instance, BankMiami has over 185 bank investors, an average of over \$200,000 per investor. We were not able to form as an S-Corp under the current rules. While we ultimately formed as a C-Corp, Chairman Hill's bill, the S-Cap Act (H.R. 2777) that increases

the shareholder cap from 100 to 250, would have allowed us to have different avenues of bank formation that were not available to us when we were established.

### **Managing Expenses and Benching Talent**

Another challenge for de novo banks is that we cannot actually accept capital until the charter application is accepted by our regulators. Since there is no clock on that part of the process, we cannot give potential investors certainty in the timing. Many investors who give verbal commitments put their capital to work in other investments due to the wait time and then cannot bring it to bear at the time we need it, causing de novo banks to have to find additional investors and delaying the capital raise process. At BankMiami, we began this process in August 2023, filed our application in December 2023, yet our application was not officially accepted until April 2023 – almost five months after the application was filed.

Moreover, since founders cannot count on a timeline for acceptance of an application much less approval and the steps it takes to get operational, it can be difficult to estimate and manage costs. To apply for the charter, we must front significant expenses particularly when it comes to building the right team. At BankMiami, our gross organizational cost to open was close to \$2 million. Much of that cost was associated with locking in key team members who are essential to our success. At the same time, we have to pay them to sit on the sidelines waiting for approval to begin operating. That goes on for months. This delay, causes the initial organizational expense to be significantly higher as each month goes on, requiring more and more capital in the process to offset the higher organizational costs.

### **Regulatory and Process Disconnects**

Upon receiving our approvals and meeting our minimal capital requirements, we were elated and thought we would be fully operational on day one. However, there turned out to be one snag that we thankfully were able to overcome. We learned that the Federal Reserve no longer reviews applications to establish operational accounts until the charter is officially issued and FDIC insurance is received. This means that despite having a charter and federal deposit insurance,

banks cannot operate independently for weeks awaiting account access, or they need to find a workaround, such as settlement through a correspondent bank. Additionally, unless you get a bank to sponsor your debit card BIN, you also cannot begin to operate with Mastercard / Visa for debit cards directly until a charter is received. We have heard of banks that have taken nine months before they were able to issue debit cards to their clients, thus making it even more challenging to open as a de novo bank. We believe these hurdles can be resolved through industry discussions with Federal Reserve leadership and Mastercard / Visa providers. However, I raise them to demonstrate additional hurdles that could be overcome, including with some coordination among federal agencies.

### **Support for H.R. 478, the Promoting New Bank Formation Act**

I support the efforts of the sponsors and this Committee in passing H.R. 478. The bill would provide more regulatory, capital and lending flexibility to facilitate de novo bank creation, encourage investment in these banks and promote their viability. In particular, the provision directing Federal banking agencies to issue rules that provide for a 3-year phase-in of capital standards would lower one of the primary barriers I outlined in my statement, raising capital. The bill would also allow a de novo bank to request permission from the Federal Deposit Insurance Corporation to deviate from its approved business plan. While that has not been a problem for BankMiami yet, it certainly would provide flexibility for us through the three years of de novo status that remain ahead. Local economic circumstances change, and we must have the ability to adapt so that we can succeed.

### **Conclusion**

Today, there are 4,487 banks in the United States, nearly 50 percent fewer than the 8,833 banks that operated in 2005. Of the banks active today, only 85 were established after 2010. I am proud to be one of those 85, but there should be more of us.

BankMiami is a proud member of the Florida Bankers Association, the American Bankers Association, and the Independent Community Bankers Association. I appreciate their support of de novo banks and in preparing me to appear before you.

I am grateful to this Committee for your sincere interest in a robust, competitive banking industry that serves our customers and communities. I am hopeful that necessary reforms will be made both by Congress and Federal and State regulators to support that outcome.

Thank you for your time and attention. I look forward to your questions.