

# starting a de novo bank

Playbook

jack henry™



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# introduction

While the effort to launch a de novo bank is significant and requires skill and experience, with perseverance and proper planning, starting a viable and successful bank can be extremely rewarding. Banking is one of the most profitable investment industries, especially considering the U.S. is one of the world's largest financial marketplaces.

It requires a lot of strategy, willpower, and time – along with the right technology – to make a new bank successful. The good news is that you don't have to navigate the process alone. By partnering with an experienced, well-rounded technology company like Jack Henry™ (which has an exceptional track record as a strategic technology [partner with de novo banks](#)), you'll get the infrastructure, tools, resources, and support you need to give your bank the proper foundation for growth and success in an extremely challenging financial world.

For your bank to grow, you need a core platform that supports customization and third-party integration. But more than that, it is imperative that you have

a future-ready technology ecosystem that delivers the capabilities to meet the strategic goals of your business plan.

With Jack Henry, you can have industry-leading technology and tools that provide the flexible, enterprise-wide automation you need to compete and position your bank for success long into the future. And you'll get more than just a vendor – you'll gain access to a [partnership of people, innovation, and technology](#) cultivated to support your continued growth.

Over  
**42%**  
of new banks choose Jack Henry as their technology partner.\*

Learn More

\*2017 to 2020

# a de novo bank defined

A de novo bank is a bank that has not been acquired through purchase and is newly chartered by the Federal Deposit Insurance Corporation (FDIC). A de novo bank can be a commercial, state, national, savings, or thrift bank, among others, or even a newly opened branch of an existing bank.

## de novo

adverb or adjective

de no-vo | \ di-nō-(j)vō

Over again: ANEW

(e.g.: starting a *de novo* bank)

For state banks, a de novo bank is a state bank that has been in operation for five years or less. A commercial bank can become a de novo bank if, after five years or less of existence, it changes to state membership. If this happens, the bank will need to file a de novo bank application and adhere to required supervision standards.

Edge Act Corporations, thrift banks, and industrial banks converting to state

membership would still be considered de novo banks even if they've already existed for more than five years. This is because they need to exhibit first that they have the operating stability of a commercial bank. Organizations that convert their memberships to state memberships are referred to as converted banks. There are several types of financial institutions and various rules and guidelines governing them, so visit [fdic.gov](https://www.fdic.gov) to learn more.

The FDIC supervises institutions to ensure they comply with applicable federal consumer protection laws, including fair lending laws, the law against unfair and deceptive practices, and the Community Reinvestment Act (CRA). To learn more, visit the FDIC's [Supervision Program](https://www.fdic.gov/supervision-program) page.

De novo banks are required to adhere to the FDIC's supervision policy until they reach their fifth year, because experience shows that problems in banks are often revealed during their fourth and fifth years of operations. The problems may be caused by competitive factors, inexperienced management, improper lending practices,



or turnover of management, directors, or other staff. All of these factors – and others – can contribute to problems at the bank.

Your new bank will start with zero customers, and you'll have three years to hit your asset target. Your primary goal should be attracting and retaining customers. So, the critical factor in starting a new bank is determining the benefits customers will receive from your institution. Ultimately, the type of institution you start – whether a traditional bank or an online digital bank – depends on your strategy, your resources, and your competitors.





# traditional banks

There are certain advantages for consumers to bank with a financial institution that has brick-and-mortar branches versus a digital-only bank, or even a combination (which has become more prevalent). Traditional banks have a bigger opportunity to build relationships with accountholders,

for example, because they allow for face-to-face time in the branches.

To help you decide if starting a traditional bank is the right strategy for you, here are a few of the benefits customers get from traditional banks.

## Reasons Consumers Choose Traditional Banks

- **More Options:** Most major financial institutions provide a variety of services. So whether your potential accountholders want a personal savings or checking account, trust fund, certificate of deposit, Roth IRA, or business checking account, they can find it in one place at a traditional bank. Many traditional banks offer wealth management and investment services, too, which are good for attracting new accountholders to increase your customer base.
- **Convenience:** By starting a financial institution with brick-and-mortar locations and ATMs – which are typically free for users – you'll ensure that your customers have easy, 24/7 access to their funds. While the number of branches in the U.S. has declined over the years, many customers still prefer the access branches offer, and there are relationship-building opportunities you can benefit from.
- **Cash Deposits:** Despite all the progress that fintech has made, the industry must still contend with a traditional form of currency: cash. For banking customers who deal with cash frequently, a traditional bank is an attractive and convenient option.
- **Adding a Digital Brand:** Most traditional banks have introduced digital capabilities for the convenience of online banking, but also to expand their geographic reach, drive efficiencies, and improve customer loyalty.

# online digital banks

We live in an age where almost everything can be done from the palm of our hand – from purchasing movie tickets to buying groceries and having them delivered right to our home. This is no different for banking, and it has caused many people to shift to online banks. Online banks eliminate the brick-and-mortar banking experience but offer everything else that most traditional banks do. While they don't offer live assistance in a face-to-face environment, they do offer assistance over the phone.

## Reasons Consumers Choose Online Digital Banks

● **Convenience:** Digital banks are open for business anywhere there is an internet connection, regardless of geographic location. And except for downtime during website maintenance, they are open 24 hours a day, 365 days a year. If internet service is not available, customer service is normally provided around the clock via telephone. Real-time account balances and other information is available at the touch of a few buttons. This makes banking faster, easier, more

efficient, and even more effective because consumers are always able to stay on top of their account balances. Updating and maintaining a digital account is also easier – it takes only minutes for accountholders to change their mailing address, order additional checks, and check for current interest rates.

● **Better Rates:** The lack of significant infrastructure and overhead costs allow direct banks to pay higher interest rates on savings and charge lower mortgage and loan rates. Some offer high-yield checking accounts, high-yield CDs, and no-penalty CDs for early withdrawal. Some accounts can be opened with no minimum deposits and carry no minimum balance or service fees.

● **Services:** Digital banks often have more robust websites that offer a comprehensive set of features that may not be found on the websites of traditional banks. These include functional budgeting and forecasting tools, financial planning capabilities, investment analysis tools, loan calculators, and equity trading platforms. They may offer free online bill paying, online tax forms, and tax preparation services.

● **Mobility:** Online banking now includes mobile capabilities. New applications are continually being created to expand and improve this capability on smartphones and other mobile devices.

● **Transfers:** Accounts can be automatically funded from a traditional bank account via electronic transfer. Most digital banks offer unlimited transfers at no cost, including those destined for outside financial institutions. They will also accept direct deposits and withdrawals that accountholders authorize, such as payroll deposits and automatic bill payment.

● **Ease of Use:** Online accounts are easy to set up and require no more information than a traditional bank account. Many offer the option of inputting data online or downloading forms and mailing them in. If there's a problem, accountholders have the option of calling or emailing the bank directly. One advantage of using online checks is that the payee's information is retained, which eliminates the need to reenter information on subsequent checks to the same payee.

# the de novo process

Starting a bank requires dedication and capital funding. It involves a long process that could take a year or more, as well as permission from at least two regulatory authorities. The amount of time depends on how much capital you've raised, your management team, and the number of people on your team who will assist with de novo banking applications. To get approval, you'll have to provide extensive information about the individual organizer(s), as well as your business plan, senior management team, finances, capital adequacy, risk management infrastructure, and other relevant factors.

The best guarantee of success is to have a solid business plan in a market with excellent growth opportunities and a [proficient technology partner](#). Starting a new bank is also an intensely detailed undertaking, and you must make many key decisions and address important issues quickly.

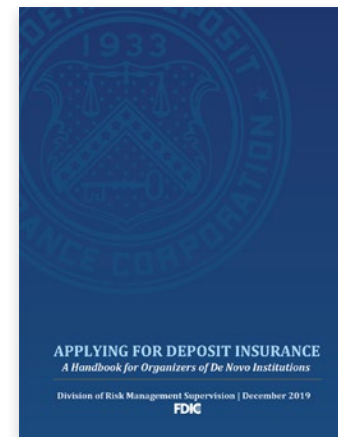
The FDIC provides the required-reading, [definitive guide](#) to the process, and includes:

## Introduction

- Overview of the Application Process
- Preparing the Application
- Evaluating the Application

## Section I: Pre-Filing Activities

- Organizers
- Assembling the Board of Directors and Management Team
- Evaluating Management, including the Board of Directors
- Setting Business Goals and Objectives
- Charter, Ownership Structure, and Tax Election
- Defining the Institution's Market and Identifying Office Locations
- Developing the Business Plan



Download

- Business Plan Content
- Additional Considerations Regarding Business Plans
- Planning for Organizational Expenses
- Determining the Initial Amount of Capital
- Pre-Filing Meetings
- Draft Proposals

## Section II: The Application Process

- Overview of the Review and Evaluation Process
- Application Requirements
- Application Content
- Public vs. Confidential Information
- Evaluating the Statutory Factors
- FDIC Staff Involvement and Field Investigations
- Approval Conditions

## Section III: Pre-Opening Activities

- Satisfying Pre-Opening Conditions
- Completing the Capital Raise
- Other Pre-Opening Considerations

## Conclusion

## Resources

## Appendix

- Regional Office Contact Information
- Frequently Imposed Conditions
- Examples of Prudential Conditions
- Important Considerations Regarding Compensation and Related Plans

## Stock Benefits Framework





# tips for success

## 1 preparation and support

There is no replacement for doing your research. You can start by visiting industry associations like [American Bankers Association](#) (ABA) or [Independent Community Bankers of America](#) (ICBA). Countless articles and insights are provided by major associations such as these.

### American Bankers Association

ABA offers a [complimentary membership](#) for three years and a 50% reduction of dues in the fourth year, and provides you with these valuable resources:

- [Experts on Call](#): Direct access to ABA staff, including their de novo banking experts.
- [ABA Frontline Compliance Training](#): Free training for everyone at your bank, covering a range of compliance issues and available exclusively to ABA members.
- [Online Discussion Groups](#): Online forums for members with common interests. Groups range from mortgages and bank operations to training and development.
- [Banking Topics](#): News, training, and updates on specific areas of banking, including compliance, technology, and consumer banking.

- [Member Benefits Webinars](#): A comprehensive overview of ABA member benefits including exclusive members-only information, where to find specific training and tools, available discounts, and more.
- [Email Bulletins](#): Regular updates on the topics most important to your bank – including accounting, human resources, and leadership – delivered straight to your inbox.
- [Committees, Councils, and Working Groups](#): Opportunities to help shape ABA's priorities by serving on one of their many topic-focused working groups.

### Independent Community Bankers of America

ICBA offers a [complimentary membership](#) for three years, providing you with these valuable resources:

- [Online Education](#): Community Banker University offers a variety of online training options with courses that build knowledge and a strong foundation within key areas of the banking industry and professional development.
- [Bank Director Program Subscription](#): Exclusive director-related training, tailored to meet the needs of your board and delivered through bi-monthly newsletters, online training, a governance helpline and preferred pricing on resources and events.
- [Compliance Vault Access](#): A reliable search tool that helps you find answers to your regulatory compliance questions, with access to over 2,500 Q&As, select eLearning courses, and documents.

#### tips for success

- [Access to All Preferred Service Provider Discounts and Programs](#): ICBA Preferred Service Providers are best-in-class service providers dedicated to the community banking industry.
- [ICBA Marketing and Communications Toolkit](#): Presenting your bank's message and strategy to the public is more important than ever. This resource provides the tools you need to plan, leverage channels, and craft your message to your audiences.
- [ICBA Social Media Monitor](#): Capture online conversations about your financial brand on the internet. These insights then help with brand and reputation management.
- [Bank Cyber and Data Security Guide](#): Learn more about prevention and risk mitigation and the protection of customer data in every aspect of bank operations.
- [Free Attendance to the ICBA Capital Summit](#): Join community bankers from across the country to advocate for the industry – in person. You have the power to share your personal story and put a name to the industry's key legislative priorities.



## 2 selecting your team

- As with any business, your bank's management team must be dedicated to your goals and have the bandwidth to achieve them. Building a core organization with members whose values align culturally, and who have complementary skills and experience, will be a large factor to your success.
- If you haven't worked in some area of the financial services industry, it's important that you have resources on your team, or at least at your disposal, to provide critical industry guidance and expert advice.
- As you might expect, de novo consultants are available. However, be meticulous in your understanding of the value and benefits they bring to the effort when compared to the cost for those services. Ensure that their experience and success align with your business strategy and culture. Explore these nuances when speaking to their provided references when calculating return on investment.
- Utilize your network. Banking professionals – especially those with a long history within the industry – will be key assets to your team.

## 3

## identifying your key technology partner

Selecting your key technology partner is an integral component of your success. Your technology leader will be at the forefront of delivering innovative, future-ready banking to help your bank succeed. They will deliver the innovative tools and capabilities you need to serve your new customers, remain competitive, and fuel your success. They will also offer a full range of capabilities, but can easily integrate fintech solutions specific to your vision without hesitation or resistance.

Your partner's technology is required to deliver the power, flexibility, and scalability you need, not just for the initial period of reaching your target, but also for sustained growth beyond start-up.

- Your technology partner should deliver the full spectrum of capabilities you need for all of your operations – from digital, core processing, cloud, payments, lending, cybersecurity, and fraud protection to operations, branch solutions, and more. Selecting a partner with deep capabilities will provide a more seamless technology ecosystem while enabling integration of fintech solutions to help you further achieve your strategy and deliver the best customer experience. Depending on your business strategy, geographic location, audience demographics, and competition, your selection may need to be more specific for traditional brick-and-mortar banks, digital-only banks, or a strategic combination.
- Your partner should have depth of experience and a proven track record in the U.S. banking industry, in addition to de novo bank launch success. Those focused exclusively on the U.S. market have an advantage over global providers, whose focus and expertise is often spread more broadly.
- Your partner's technology is required to deliver the power, flexibility, and scalability you need, not just for the initial period of reaching your target, but also for sustained growth beyond start-up.
- Ensure that your partner optimizes your technology investment with training, continuing education, and a variety of consulting services.
- Your partner should provide capabilities for your specific audience. Does your geographical location have a high concentration of businesses? Ensure your provider delivers commercial banking solutions.
- Having a partner that provides multi-branding capabilities is a huge benefit. This means that you can utilize a core platform that simultaneously services both brick-and-mortar bank branches and a digital bank (whether it's the same as the traditional bank or is branded separately) without the expense of a second core platform.



## De Novo University

is a unique facility provided by Jack Henry where your technology ecosystem is built and tested, and your employees are initially trained.

- Your technology partner must be committed to openness and be adept at integrating capabilities from fintech solutions quickly and seamlessly into your technology stack, delivering agility and speed to market for your customers.

## 4 raising capital

- Capital is a critical component to starting a bank and is one of the most challenging, due to the regulations involved. The amount you will need to raise may be as high as \$10 million to \$30 million and determines FDIC approval of your application.
- The cost involved in starting a bank depends on your business plan but is often in the range of \$500,000 to \$1 million. The associated start-up costs may be raised through investment capital or, with approval, be self-funded.

### Starting a new bank isn't easy.

And while it can be a long and complex undertaking, when successful, it can also be very rewarding. The best guarantee of success is to have a solid business plan, a robust core platform, and the right technology partner to help you put it all together.

When you partner with Jack Henry, you'll be backed by a trusted, well-rounded technology company that has worked successfully with nearly 100 de novo banks over the past decade. And with Jack Henry's third-party integration and customization options and industry-leading technology and tools, your new bank will be empowered to compete effectively in the financial market and will be positioned for growth and success long into the future.

Over

# 42%

of new banks choose Jack Henry as their technology partner.\*

\*2017 to 2020

Visit our website for more [de novo bank](#) information. | 12



# resources you need

## FDIC resources

- [Deposit Insurance](#)
- [Supervision and Examinations](#)
- [Laws and Regulations](#)
- [Resolutions](#)
- [Data Tools](#)

## FDIC bank applications

- [Applying for Deposit Insurance – A Handbook for Organizers of De Novo Institutions](#)
- [Deposit Insurance Applications – Procedures Manual](#)
- [Procedures Manual Supplement: Applications from Non-Bank and Non-Community Bank Applicants](#)
- [Process for Reviewing Draft Deposit Insurance Proposals](#)
- [Resources Specific to Deposit Insurance Applications](#)
- [Decisions on Bank Applications for Deposit Insurance](#)
- [Forms](#)
- [Laws, Regulations, and Supervisory Guidance](#)
- [Delegations of Authority](#)
- [Additional Resources](#)
- [Resources for Organizers and Proposed Directors and Officers](#)
- [Laws, Regulations, and Supervisory Guidance](#)
- [Examination Manuals](#)
- [Other Resources](#)

# Federal Reserve System: Partnership for Progress Program

- [De Novo Bank Application Process](#)
- [Capital Requirements\\*](#)
- [Board of Directors – Profile and Core Characteristics](#)
- [Core Characteristics of a Management Team](#)
- [Officer/Director Background Checks](#)
- [Market Competition/Feasibility Study](#)
- [Demographic Analysis\\*](#)
- [Financial Projections](#)
- [Outsourcing and Vendor Management](#)
- [The Supervisory Process and Regulatory Relations](#)
- [Asset/Liability Management Committee](#)
- [Consumer Compliance](#)
- [Consumer Compliance Risk Management\\*](#)
- [Fair Lending\\*](#)
- [Risk Management\\*](#)
- [Bank Rating System\\*](#)
- [Enforcement Actions\\*](#)
- [Community Reinvestment Act\\*](#)

*\*This topic is repeated in all stages of the bank life cycle.*

# connect with next-generation technology

[Learn more](#) – partner with Jack Henry on your de novo strategy and technology ecosystem success.

For more information about Jack Henry, visit [jackhenry.com](https://jackhenry.com).



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